Report of the

Auditor General of Canada

to the House of Commons

1991 Main Points

© Minister of Supply and Services Canada 1991

Cat No. FA2-1991
ISBN 0-662-58635-2

Preface

This is the fourth year we have produced this booklet of main points from the annual Report. It should be seen as one element in a continuing task. That task is to communicate clearly the results of our audits.

Our auditing has value only when we get our messages across: to Members of Parliament, to the government, to the taxpayers of Canada who provide the dollars the government spends.

The Auditor General's annual Report exceeds 500 pages of detailed information. Despite our best efforts, I recognize that it is not an easily accessible document.

This booklet has two purposes. First, it gives the main points from each of this year's chapters. Second, the paragraph references at the end of each main point permit quick access to the full Report.

The main points here are very abbreviated. When readers identify matters of interest to them, I urge them to go to the Report for the complete message.

The booklet has been well received in the past. I hope it continues to be a useful and convenient tool.

L. Denis Desautels, FCA

Auditor General of Canada

Table of Contents

Chapter **Page**

1. Matters of Special Importance and Interest 1

Other Audit Observations

2. Audit Notes 2

3. Follow-up of Recommendations in Previous Reports 3

Special Studies

4. The Accountability Framework for Crown Corporations: Making it Work 5

5. Innovation within the Parliamentary Control Framework 6

Government-wide and Special Audits

6. Capital Projects - Department of Public Works, Quality in the Constructed Project 7

7. Vehicle Fleet Management 8

8. Debt Management and Employee Pensions 9

9. Financial Management and Control of Non-tax Revenue 10

Comprehensive Audits

10. Department of Agriculture - Farm Safety Net Programs 11

11. Department of the Environment - Conservation and Protection 13

12. Department of External Affairs - Membership Payments to International Organizations 14

13. Department of Fisheries and Oceans - Central and Arctic Operations 15

14. Department of Indian Affairs and Northern Development 17

Table of Contents (cont'd)

Chapter **Page**

Comprehensive Audits (cont'd)

15. Department of National Revenue - Customs and Excise - Customs Operations 18

16. Department of National Revenue - Taxation - Taxpayer Services 19

17. Department of Public Works - Office Accommodation Planning and Leasing 20

18. Department of Supply and Services - Management of the Government Procurement Service 21

19. Department of Supply and Services - Government Procurement and Industrial Development 23

20. Department of the Secretary of State - Official Languages and Translation - Translation Bureau 25

* * * * * * * *

21. Organization and Programs of the Office of the Auditor General 27

Matters of Special Importance and Interest

1.1 The tenure of every Auditor General is shaped to some extent by the bureaucratic, political, cultural and economic climate surrounding it. My appointment comes at a time when the country faces unique challenges. This year's Report reflects some of these national issues – the relationship between the government and First Nations, the need for better co-ordination between governments with overlapping jurisdictions, the protection of the environment, and the deficit. The Report can be viewed as a microcosm of the wide-ranging concerns of Canadians – from specific, local issues to those of interest nationwide. My intent in this chapter is to weave together some of the common threads in this Report, from my perspective as a relative newcomer to Ottawa, with a few "first" impressions.

1.2 My natural inclination – and my professional training – is to ask questions. This chapter will focus less on solutions to the problems raised in the Report than on the questions those problems lead me to ask.

1.3 There are two overriding messages in this chapter. The first is that means must be found to more effectively manage programs that involve different levels of government. The second is that managers and departments need to better account for results, for what they have – or have not – achieved with taxpayers' money. Such an accounting, with its emphasis on results, would help Parliament consider past performance in the allocation of scarce resources.

Audit Notes

2.1 The Auditor General Act requires the Auditor General to include in his annual Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

2.2 The Audit Notes chapter fulfils a special role in the annual report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report on audits and studies of issues that relate to operations of the government as a whole. The Audit Notes chapter is a compilation of individual matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities. It is also used to report some specific matters that have come to our attention during our comprehensive audits.

2.3 The chapter contains a wide range of notes. One note concerns a reservation in the auditor's report on a Crown corporation's financial statements for the year ended 31 March 1991. The other 18 notes concern departmental operations. One note on departmental operations deals with Parliament's control over taxing, and another note concerns access to information on undertakings to recommend amendments to the Income Tax Act. The remaining notes on departmental operations generally concern compliance with authorities, cash management practices, controls over revenue or the expenditure of public money without due regard to economy.

2.4 Although the notes report matters of significance, they should not be used as a basis for drawing wider conclusions about matters we did not examine.

Follow-up of Recommendations in Previous Reports

3.1 Overall, progress is being made in taking corrective action in response to deficiencies noted in previous Reports.

3.2 **Department of Energy, Mines and Resources - The Management of Federal-Provincial Contribution Programs** - Our follow-up indicates an overall improvement in the federal administration of the Nova Scotia Development Fund and the Newfoundland Offshore Development Fund (paragraphs 3.34 to 3.55).

3.3 **The Management and Use of Telecommunications in the Federal Government** - Government Telecommunications Agency (GTA) has been designated as a Special Operating Agency. Steps have been taken to establish Information Technology Standards ensuring compatibility of the networks and portability of applications. GTA estimates a saving of $13 million to $15 million in 1991-92 (3.92 to 3.97).

3.4 **Department of External Affairs - Consular Services** - The Department is making headway in implementing the 1989 recommendations. For example, a major consular awareness program that addresses our concerns has been developed and launched. However, efforts initiated at headquarters to respond to our recommendation on the need for a better definition of the range and extent of consular services will have to be carried through at the missions. It is anticipated that all our recommendations will be fully implemented by 31 March 1992 (3.106 to 3.118).

3.5 **Department of National Health and Welfare - Canada Assistance Plan** - Monitoring and verification of provincial compliance with the CAP Act has improved, but information to Parliament in the Estimates and the annual reports is still not adequate (3.131 to 3.139).

3.6 **Department of Transport - Canadian Coast Guard - Protecting Mariners' and Public's Interest** - There has been progress in some areas, but much remains to be done to fully deal with our observations and recommendations to improve the safety of mariners and the public (3.161 to 3.167).

3.7 **Department of Transport - Canadian Coast Guard - Fleet Management, Aids to Navigation and Icebreaking** - The Coast Guard has done some analysis of its navigational aids fleet requirements and is downsizing as a result. We are concerned about the length of time it is taking to address our observations and recommendations regarding the icebreaking fleet and maintenance (3.168 to 3.177).

continued

3.8 Canada Employment and Immigration Commission - The Unemployment Insurance Account - CEIC has taken several measures that satisfactorily respond to our observations and recommendations, and has recently developed and implemented other corrective measures, which will be the subject of a future audit or follow-up. The Commission has selected performance indicators for the Claimant Re-employment Strategy for 1991-92, but only after they have been implemented will we be able to assess actual progress in the re-employment of UI claimants (3.178 to 3.190).

The Accountability Framework for Crown Corporations:
Making It Work

4.1 Crown corporations represent a significant portion of overall government activity. As of December 1990 there were 57 parent Crown corporations. Their activities in many sectors of the Canadian economy – transportation, resources extraction, marketing, international trade, finance, research, culture – required, in 1989-90, over $4.6 billion in budgetary funding from Parliament.

4.2 Revisions in 1984 to the Financial Administration Act (FAA) strengthened the control and accountability framework for Crown corporations. In 1989 we reported that considerable progress had been made in implementing key provisions. In 1990 we reported on experience with the audit regime established by Part X of the FAA.

4.3 There are four areas, noted in these previous reports, where greater effort is needed (paragraphs 4.12 to 4.14).

4.4 Crown corporations are required to disclose in their annual reports the extent to which their objectives have been met. Although there has been some improvement over the last five years, the majority of Crown corporations are not meeting this requirement. Though not easy, performance measurement and reporting are considered to be good management practice in both the public and private sectors. They are also a critical link in the accountability of Crown corporations to Parliament (4.15 to 4.48).

4.5 Crown corporations do not report amounts received through parliamentary appropriations in a clear and consistent manner. Consequently it is difficult to determine from their financial statements the total amount of funding received from Parliament, or to make meaningful comparisons of the financial results of their operations. This significantly diminishes the usefulness of the financial statements for accountability purposes (4.49 to 4.65).

4.6 Internal audit has been given a broad mandate and an important role in the accountability framework. Our observations on the first round of special examinations indicate that the internal audit function in many Crown corporations has a long way to go to fully meet those responsibilities. This will require the strong support of management and the active involvement of the audit committees of boards of directors (4.66 to 4.79).

4.7 In 1989 we expressed concern that eight corporations were exempt from Part X of the FAA. Since then action has been taken to bring into line the legislative provisions covering one of these corporations. However, seven corporations remain exempt from key accountability provisions and two new corporations are being exempted (4.80 to 4.96).

4.8 Although considerable headway has been made with the implementation of many provisions of Part X of the FAA, further effort is required by all concerned to ensure that these four implementation weaknesses are addressed (4.97 to 4.101).

Innovation within the Parliamentary Control Framework

5.1 Over time, government has established Royal Commissions and other reviews to examine the management practices of the federal public service. The most recent has resulted in a policy for public service reform to improve services to the public, Public Service (PS) 2000. The objectives of this initiative are supported by our Office. The proposed changes are significant both in terms of the departments and agencies involved and the range of problems they address. Their implementation has just begun (paragraphs 5.6 and 5.10).

5.2 The purpose of the study reported in this chapter is to address, early in the reform process, whether we believe that further consideration needs to be given to certain aspects of the reforms as they are being implemented. In particular, we examined the guidance being provided to managers on implementing the desired reforms while still meeting parliamentary control requirements (5.24, 5.25 and 5.29).

5.3 We have drawn on a number of innovative practices, influenced by financial restraints, in the Department of Fisheries and Oceans to illustrate our comments. They show initiatives by managers on both the Atlantic and Pacific coasts to improve the delivery of services at a lower cost to taxpayers. All of these initiatives were started prior to the current reforms – some over 10 years ago – but are considered by managers to be consistent with many of the goals of PS2000. They demonstrate the commitment of public servants to improving programming, getting the job done and meeting the needs of the fishermen, while minimizing the public funds spent by the Department (5.30 to 5.39, 5.43 to 5.48 and 5.57).

5.4 In these cases public servants at Fisheries and Oceans have been innovative in their solutions to improving service, which they implemented with good intentions. However, because of the particular approach fisheries managers have chosen in implementing these solutions and financing them, these initiatives do not, in our opinion, satisfy the requirements for parliamentary control. The government has informed us that there are other cases in the Department of Fisheries and Oceans and other departments where managers have successfully reconciled innovation with the parliamentary control framework (5.40 to 5.42, 5.49 to 5.54 and 5.58).

5.5 As shown in our illustrations, certain managers have encountered difficulty in reconciling programming initiatives, taken to improve services and respond to financial restraints, with the parliamentary control framework. Since an appropriate parliamentary control framework is part of the new culture advocated by PS2000, it is important in this period of change that managers understand, through training and guidance, how this framework will be applied in the new environment (5.24 to 5.29 and 5.56).

Capital Projects
Department of Public Works
Quality in the Constructed Project

6.1 The real estate portfolio of the Government of Canada is estimated to be worth $60 billion, a significant percentage of the net national debt (paragraph 6.11).

6.2 In this first assessment by our Office of the quality of these assets, two general-purpose office buildings were examined on a pilot basis to develop and test methodology (6.17 and 6.18).

6.3 The methodology developed and field-tested can be employed, with few modifications, in the future audit of buildings and building condition reports forming part of the Department of Public Works and other departments' asset management plans (6.18).

6.4 Both buildings were found to be generally designed and constructed to commercial standards commonly in effect at the time (6.21 and 6.78).

6.5 Breaches of the National Fire Code in both buildings audited raise questions about their design, construction, inspection, commissioning and operational management (6.21 to 6.23, 6.59 to 6.67 and 6.87 to 6.92).

6.6 There is no complete fire safety plan for either building (6.67 and 6.92).

6.7 Large precast concrete panels in the uppermost part of the envelope of one building are cracked, and the panel anchors are corroding (6.26 and 6.49).

6.8 Both buildings have features that make accessibility for the handicapped unnecessarily difficult and do not fully comply with the government's policy on ease of access (6.21, 6.24, 6.25, 6.68 to 6.72 and 6.93 to 6.95).

6.9 The heating, ventilation and air conditioning of one building cost $5.9 million more than other more economical and efficient systems available at the time of construction (6.28 and 6.29).

6.10 Air quality, lighting, acoustics and functional deficiencies exist in both buildings (6.50 to 6.54, 6.56, 6.58, 6.68 to 6.74, 6.83 to 6.86 and 6.93 to 6.96).

Vehicle Fleet Management

7.1 We audited vehicle management in six departments that, together, manage about two thirds of the government fleet of almost 29,000 standard commercial vehicles, acquired at a cost of $470 million (paragraph 7.18).

7.2 There is significant room for improvement in motor vehicle fleet management. The problems merit a comprehensive review by Treasury Board and departments (7.21).

7.3 Transportation planning is generally weak. Typically, transportation needs are not defined in relation to program or service goals. Departments typically do not question whether the actual need for a vehicle continues to exist (7.22 and 7.25).

7.4 Generally, vehicles are purchased on the basis of initial price and, on this basis, we found that the Department of Supply and Services (DSS) obtains new vehicles at prices comparable to those available to large private sector fleet owners. However, environmental concerns and components of life-cycle costs, such as long-term maintenance costs, have not yet been incorporated into the acquisition process as required by the Treasury Board (7.26, 7.28 and 7.29).

7.5 Increased standardization of departmental vehicle fleets could result in greater savings in acquisition, administrative and operating costs (7.26 and 7.27).

7.6 We found indications of underutilization of vehicles and the possibility for savings in some of the departments, using a conservative annual utilization benchmark. For example, based on results of an in-depth study the Department of Transport plans to significantly reduce its vehicle fleet, at a saving of about $8.75 million over two years (7.30).

7.7 Departments have authorized many employees to take vehicles home, in the event the employee has to return to work after regular hours. However, they have not established procedures to calculate possible benefits for tax purposes resulting from this practice (7.31).

7.8 Departments and DSS have invested considerable resources in management information systems for vehicles. A Treasury Board evaluation of the DSS system reported that most departments did not find it to be useful. We found that the systems at the departments of National Defence and Transport were not complete or sufficiently reliable to be used for vehicle management. None of the systems could readily produce reports by location on vehicles whose usage, costs or repairs differed significantly from the norm (7.32 and 7.33).

7.9 Four of the five departments audited are not disposing of vehicles declared "surplus" in a timely manner. The cost to the government of this practice is estimated to be $1 million per year in one of the departments alone (7.35).

Debt Management and Employee Pensions

8.1 A substantial portion of the federal annual budgetary deficit is financed through internal borrowing from accounts that the government administers on behalf of third parties. The largest internal borrowing is from federal employee pension accounts. As a result, $71 billion, or about 18 percent of the $399 billion gross public debt, was owed to employee pension accounts at the end of 1989-90. If the Department of Finance's projections that external financing will be reduced to zero by 1994-95 are achieved, it is estimated that the amount owing to employee pension accounts will represent 23 percent of the total public debt (paragraphs 8.8 and 8.9).

8.2 The long-term financial implications of borrowing from pension accounts have not been reviewed since the present pension legislation came into effect in 1954. Certain events that have transpired since then raise questions about the appropriateness of the present arrangements and indicate the need to evaluate them (8.27 to 8.39).

8.3 Interest (notional investment earnings) credited to the pension accounts is based on the government's long-term borrowing rates. It is widely agreed that these rates are between 1 and 2 percent lower, on average over the long term, than the rates of return earned by pension plans with marketable assets. This has resulted in the government assuming greater actuarial deficits (8.40 to 8.45).

8.4 At the same time, internal borrowing from pension accounts receives little attention from the Department of Finance debt managers because the borrowings are non-cash transactions (8.46 to 8.49).

8.5 Over the years, contributions have exceeded pension payments. This has helped to expand internal borrowings and reduce external borrowing requirements. Pension payments now exceed contributions, which means higher cash requirements for the government. This reversal reflects, in part, the decline in the ratio of contributors to beneficiaries. Nevertheless, borrowings from pension accounts continue to grow, mainly because of compounding interest credited to these accounts (8.50 to 8.56).

8.6 We also observed that information on pensions and public debt owing to pension accounts is not clearly presented in the Estimates and the Public Accounts. Consequently, internal borrowings from pension accounts and other specified purpose accounts are not scrutinized by Parliament in the same manner as borrowings from the general public (8.59 to 8.72).

Financial Management and Control of Non-tax Revenue

9.1 The results of this review are encouraging. They indicate that steps are being taken by central agencies and departments to improve the financial management and control of non-tax revenue. Effective use of incentives, better information and improved control are needed as the government seeks to increase non-tax revenue, and changes to Parliamentary authorities and administrative policy are made (paragraphs 9.21 to 9.23).

9.2 The role of central agencies is changing; they are placing increased emphasis on the management of non-tax revenue by departments (9.23 to 9.29). The extent to which the Treasury Board Secretariat and the Office of the Comptroller General are to monitor non-tax revenue activity and results needs to be clarified and communicated to departments (9.30 to 9.33). They have completed some important tasks and are pursuing others (9.34 to 9.40).

9.3 A more businesslike approach is being sought (9.41 to 9.48). Increased departmental attention is required to ensure that potential sources of non-tax revenue are identified, planned for, and implemented (9.49 to 9.52). Millions of dollars of revenue are likely not being realized (9.53 to 9.56).

9.4 Before the new user fee policy can be successfully implemented, strategies that consider the costs and benefits to all parties will have to be determined and fees set accordingly (9.57 to 9.63).

9.5 Improved disclosure of non-tax revenue activity and performance is required to serve Parliament better (9.64 to 9.73).

9.6 Return on investments is usually received and recorded on a timely basis (9.74). Various deficiencies exist in collecting, controlling and accounting for other non-tax revenue (9.75 to 9.78). Other means of collection should be considered, such as consolidating the handling of accounts in one agency, contracting out to collection agencies and offsetting payments against moneys owed the Crown (9.79).

Department of Agriculture
Farm Safety Net Programs

10.1 The Department of Agriculture administers a group of programs known as the farm safety net programs. They include Crop Insurance, the National Tripartite Stabilization Program (NTSP), payments under the Agricultural Stabilization Act (ASA) and the Western Grain Stabilization Act (WGSA), and various ad hoc programs like the Special Canadian Grains Programs (SCGP) and the Canadian Crop Drought Assistance Program (CCDAP). The support to Canadian agriculture these programs represent has amounted to some $7.6 billion from 1986-87 until 1990-91 (paragraphs 10.8, 10.12, 10.15, 10.18 and 10.19).

10.2 We last reported on a comprehensive audit of the farm safety net programs in 1986, when we identified problems in effectiveness measurement and reporting, and in financial management and control. This year's audit re-examines these areas with respect to two types of safety net programs managed by the Department: those designed to counteract market risk and those intended to protect farmers against the hazards of nature (10.21 to 10.23).

10.3 Since our last audit, the Department has performed little ongoing performance measurement or program evaluation of these programs. Consequently, management has had little reliable information on the impacts and effects of these programs (10.36 to 10.47).

10.4 Some of these programs are required in law to be self-sustaining. Because the Department has not defined "self-sustaining", it is difficult for managers to recognize whether a program meets this requirement and hence, whether any deficit it may show is likely to be significantly reduced. It is sometimes not clear who is liable for the deficit if a program is found to be not self-sustaining, because responsibilities are not always adequately spelled out (10.50 to 10.56).

10.5 Most of these programs operate under federal-provincial agreements. We expected that the drafting and approval of agreements would be a tightly controlled process, involving the Department's legal, accounting, auditing and program experts. Despite the significance of these agreements, we found that the process is not well controlled. In the agreements, key matters such as objectives, responsibility, cost-sharing allocation and accountability are not made clear. These weaknesses have significant consequences (10.63 to 10.66).

continued

10.6 Under the terms and conditions of most agreements, the provinces play a significant part in delivering the programs — including ensuring that producers comply with program terms and conditions and gathering essential program data. As matters currently stand, the Department authorizes federal contributions and requests advances to finance program deficits without reasonable assurance that the provinces and the producers have complied with the agreements' terms and conditions (10.67 to 10.70).

10.7 The Department has known about many of the problems identified in this chapter for some time; they were raised in our 1986 audit and its own internal studies. But it has made little progress in responding to most of our 1986 recommendations, despite a commitment to the Public Accounts Committee to do so. The Department has been very busy in this period developing new legislation and programs. Our recommendations still apply to the continuing programs and are equally pertinent to the implementation of the new programs (10.93 to 10.99).

Department of the Environment
Conservation and Protection

11.1 The division of powers between the federal and provincial governments under the Constitution Act makes no explicit mention of the environment. Each level of government has powers that impact on the environment. The overlapping nature of environmental jurisdiction makes partnerships between the provincial, territorial and federal governments vital to Canada's environmental well-being (paragraphs 11.13 to 11.19).

11.2 The Department of the Environment has not clarified with the provinces their respective authorities and responsibilities for compliance and enforcement activities, nor has it negotiated agreements with the provinces for efficient and effective achievement of environmental quality goals (11.29, 11.41 and 11.42).

11.3 Priorities for enforcement of and compliance with regulations have not been clearly defined (11.45 to 11.48).

11.4 Enforcement and compliance activities are not adequately monitored and evaluated (11.43, 11.47 and 11.54 to 11.57).

11.5 Information for planning and management control is not adequate to ensure that enforcement and compliance operations are managed with due regard to economy and efficiency, that laws and regulations are consistently applied and that an appropriate level of compliance is achieved (11.52, 11.54 and 11.55).

11.6 The Great Lakes Water Quality Agreement and its implementation structure are considered by many to be a good model for countries managing shared resources (11.64).

11.7 The provisions of the Great Lakes Water Quality Agreement require that operational and Remedial Action Plans be implemented. These plans lack specific goals and deadlines that could be used to hold managers accountable for the results obtained. In our opinion, this has slowed progress in dealing with the serious toxic pollution of the Great Lakes, although there have been significant reductions in some pollutants (11.69 to 11.76).

11.8 Information for Parliament on the Department's enforcement and compliance activities and on Canada's contribution to the prevention and clean-up of pollution in the Great Lakes is inadequate for accountability purposes (11.93 to 11.110).

Department of External Affairs

Membership Payments to International Organizations

12.1 The Department views multilateral co-operation as central to Canada's foreign policy objectives. In its commitment to multilateral co-operation Canada has, over the years, adopted the practice of joining most international organizations, such as the United Nations and its affiliated agencies, and participating in most international forums. On a per capita basis, Canada contributes more to international organizations than most other developed countries (paragraphs 12.5 to 12.7).

12.2 Every year competition for public funds increases and the need for funds to finance additional activities expands. New global issues emerge while many existing problems remain unresolved. The Department's management of multilateral activities will have to be more businesslike. Current fiscal realities are calling for hard choices (12.86).

12.3 The capacity for informed decision making by the Department, and Parliament, would be enhanced by the following changes in the way multilateral activities are managed and reported:

- articulating foreign policy objectives and priorities more clearly as they relate to participation in multilateral activities, and improving planning of operations (12.23 to 12.30);
- "standing back" and assessing on a periodic basis whether, or how well, memberships in international organizations are meeting Canada's foreign policy objectives. Departmental officials told us that they are now raising questions about certain aspects and programs of some international organizations, such as the International Labour Organization and the Food and Agriculture Organization (12.31 to 12.40);
- developing a more innovative approach to effecting administrative reform at certain UN organizations, which have not changed substantially in spite of sustained efforts by Canada over many years, both alone and with other developed countries (12.41 to 12.62);
- clarifying co-ordinating responsibility and relationships with other participating departments (12.63 to 12.76); and
- giving Parliament better information to justify resource utilization for multilateral activities and build a stronger consensus about Canada's role, foreign policy objectives and choice of options for program delivery (12.77 to 12.84).

12.4 The Department can learn from its long-standing and extensive participation in international organizations. Implementing the changes we recommend would enhance the value Canada derives from its participation in international organizations. For example, Canada could contribute, in partnership with other countries, to bringing about a better managed UN system (12.85).

Department of Fisheries and Oceans
Central and Arctic Operations

13.1 The Central and Arctic Region of the Department of Fisheries and Oceans (DFO) is faced with more demands than it can meet, particularly in a continuing period of restraint (paragraph 13.75). These include delegation of responsibilities to the provinces and territories (13.18), participation in the settlement of aboriginal land claims (13.37), expansion of DFO's role in environmental assessment (13.30), implementation of a national fish habitat management policy (13.25), and responding to significant scientific and environmental issues such as toxic contamination, acid rain and climate change (13.50).

13.2 We found that the Region is moving to meet these demands through practices such as establishing informal co-operative arrangements with the provinces (13.24), developing habitat referral procedures (13.31), participating in co-operative management boards in the Arctic (13.47), identifying priority Arctic fish stocks (13.43) and using more outside funding to support science projects (13.57).

13.3 **Delegation to provinces.** The question of the extent and nature of responsibilities to be delegated to the Central provinces remains largely unsettled, awaiting clarification of fish habitat and related environmental responsibilities. With this unclear division of responsibilities, the Department risks being unsure of the extent to which fisheries and habitat management activities are being carried out (13.15 to 13.18).

13.4 **Fish habitat management.** Progress has been slow in implementing the Policy for the Management of Fish Habitat (13.25). It has been hindered by delays in reaching delegation agreements with the Central provinces, and by additional pressures placed on the program by the Department's expanded role in environmental assessment (13.27 and 13.30). In the meantime, the provinces have been carrying out habitat management responsibilities based on informal agreements, and without monitoring by DFO (13.23 and 13.24). Another constraint on the implementation of the habitat policy and program has been the fact that information systems and data bases are limited (13.29).

13.5 **Arctic fisheries management.** The Central and Arctic Region's management of northern fisheries has been hampered by an extended period of change and indecision, largely outside DFO's control (13.37 and 13.38). In this context, the Region is having difficulty implementing an Arctic program (13.39 and 13.40). More data and information are needed to meet both the Region's requirements and the Department's obligations under land claim settlements (13.41 to 13.45).

continued

13.6 Science priority setting. Science is the Region's main strength and underpinning, and the scientific work done in the Region is highly regarded (13.49 and 13.55). In the context of fiscal restraint and major coastal fisheries problems, the Region's ability to influence the national priority-setting process is limited (13.52 to 13.56). The increasing outside funding that supports much of the science activity is subject to client-driven priorities and schedules, which can undermine the Department's priority-setting process (13.57 to 13.61).

Department of Indian Affairs and Northern Development

14.1 Inadequate accountability for funding. Seventy-two percent ($1.9 billion) of the $2.6 billion budget of the Department of Indian Affairs and Northern Development (DIAND) for the provision of goods and services to the Indian peoples is self-administered by bands or tribal councils. DIAND is answerable to Parliament for these funds, but it does not have assurance in all cases that they are used for the purpose intended or managed with due regard for economy, efficiency and effectiveness (paragraphs 14.15 to 14.20).

14.2 Housing dependency and backlog. Status Indians residing on reserves are not eligible for housing assistance available to other Canadians from provincial and municipal governments. Furthermore, the Indian Act deters them from securing funds from private financial institutions or providing personal equity investment in on-reserve housing. Consequently, they depend entirely on the federal government for housing assistance. Although DIAND's policy is to provide support for adequate housing, the Department has not clarified whether this provision is a benefit or a right, as claimed by the Indian organizations (14.21 to 14.31).

14.3 DIAND estimates that it would cost up to $840 million to clear the existing backlog of 10,000 to 11,000 housing units. DIAND has no strategic plan to resolve this critical problem (14.32 to 14.33).

14.4 1985 amendments to the Indian Act (Bill C-31). DIAND estimates it will cost over $2 billion during the next ten years to implement Bill C-31. The costs are for government commitments to meet increased demands for housing, education, and health and dental care for new status registrants (14.34 to 14.41).

14.5 Specific claims. The Indian Act and Indian treaties require DIAND to manage reserve lands and band funds. The alleged mismanagement of these assets has resulted in about 600 specific claims against the Department. In spite of federal commitments to improve the process, over half of the claims received during the past 20 years were still in process in fall 1990. We believe that stronger commitments by all parties to expedite the process are needed if desired reductions in processing times are to be achieved (14.53 to 14.75).

14.6 Since 1976, DIAND has contributed about $50 million to Indian associations or bands to conduct claims research. DIAND does not know to what extent these research funds have been used for their intended purpose (14.76 to 14.78).

14.7 Towards the end of our audit, the government announced that new initiatives would be taken to address native issues, including specific claims (14.94).

Department of National Revenue - Customs and Excise

Customs Operations

15.1 Customs enforces its own legislation and helps to administer over 70 other pieces of legislation. The Department also strives to serve the public by facilitating the movement of goods and people across the border. We examined two programs that Customs administers on behalf of other departments – illegal drugs and hazardous materials. On the facilitation side, we examined certain initiatives taken to streamline processing in traveller and commercial operations (paragraphs 15.6 to 15.16).

15.2 For the traveller initiatives, we found that planning needs to be improved. While the Department conducts its third pilot test of the special/express lanes concept, congestion and delays at many border crossings continue. We also found that facilities constraints hamper processing. The most recent version of the cash register system looks promising (15.17 to 15.46).

15.3 The commercial initiatives we examined are well received by brokers and self-clearing importers. They advised us that the initiatives have contributed to earlier access to goods and improved quality control in preparing accounting documents (15.47 to 15.57).

15.4 Seizure statistics show that the Department is a major contributor in preventing illegal drugs from entering Canada. However, it lacks a comprehensive risk assessment at the departmental level and a departmental interdiction plan; and drug intelligence gathering, sharing, analysis and dissemination have not been fully explored. We also found that the tools and facilities needed to carry out examinations for illegal drugs are not always available. Training and performance measurement for this enforcement activity could be improved (15.58 to 15.82).

15.5 The Department has a role to play in controlling the importation of hazardous materials but this role has not been clearly established. There is no defined program in place for dealing with hazardous materials. With the exception of the Department of the Environment, there are no agreements with other departments on the enforcement for hazardous materials. The implementation of the agreement with the Department of the Environment has just started (15.83 to 15.108).

Department of National Revenue - Taxation
Taxpayer Services

16.1 The Department of National Revenue-Taxation has stated its commitment to improving taxpayer services. In recent years it has extensively studied its operations, changed some practices, extended the use of automation, and expanded the range of its services. Still, the quality of some services provided is below the levels desired by the Department.

16.2 Information on client expectations is vital to the establishment of service standards. The Department uses consultative committees and focus groups to learn how it can be more responsive to taxpayers' needs. Questionnaires used to obtain taxpayers' views should be supplemented with other information sources. The Department does not make the most effective use of complaints as a source of information (paragraphs 16.20 to 16.33).

16.3 During the 1990 and 1991 filing seasons for personal income tax returns, the Department conducted surveys of telephone enquiries agents in order to monitor various aspects of their performance. One output of the surveys was information indicating that it took an average of 3.8 call attempts to get an agent on the line in 1990 and 3.2 attempts in 1991. This performance does not meet the Department's standard of approximately 1.4 attempts (16.36 to 16.55).

16.4 A large percentage of adults in Canada find the Department's publications difficult to understand. The Department is beginning to address the problem. A "readability team" is helping revise key publications to make them more understandable. In addition, certain members of the Department have received training on how to use plain language when they write. As a result, several of the Department's publications are now easier to read (16.78 to 16.89).

16.5 The Department has not conducted evaluations of its services to determine whether they are contributing to its objectives in a cost-effective manner or whether its resources are optimally employed (16.98 to 16.100).

16.6 Part III of the Estimates reports certain volume data on taxpayer services. It does not contain any information on service standards or quality (16.101 to 16.106).

Department of Public Works

Office Accommodation Planning and Leasing

17.1 The Department of Public Works (DPW) is responsible for providing office accommodation to federal departments and agencies and for furnishing other real property services. DPW accommodates about 155,000 government employees in 4.8 million square metres of office space across the country. Leased office space represents over 40 percent of the total and requires annual rental expenditures of $379 million (paragraphs 17.9 to 17.12).

17.2 The government has introduced some important changes in the management of real property in response to our 1984 comprehensive audit of DPW and other studies. However, at the time of our current audit, certain fundamental accommodation issues remain unresolved (17.13). These include:

- the service and control roles of DPW (17.25 to 17.32);
- the question of whether departments should pay rent for accommodation (17.33 to 17.38); and
- long-term accommodation planning and investment strategies (17.39 to 17.46).

17.3 It is our view that resolution of these issues would facilitate essential reforms in the planning and acquisition of leased office space.

17.4 Although the government has taken steps to make the planning and acquisition of leased accommodation more businesslike, we believe that improvements can still be made in the following areas:

- defining tenant departments' requirements (17.52 to 17.61);
- delivery times (17.62 to 17.68);
- the tendering process (17.69 to 17.75);
- meeting small space requirements (17.76 to 17.78); and
- market surveys and rental costs (17.79 to 17.87).

17.5 Government initiatives such as Public Service 2000 are emphasizing greater choice and fewer detailed controls in providing government services. This is an opportune time for DPW to address persistent, systemic problems in office accommodation planning and leasing (17.88 to 17.93).

Department of Supply and Services
Management of the Government Procurement Service

18.1 As the procurement arm of government, the Department of Supply and Services (DSS) procures goods and services worth approximately $8 billion annually for the government of Canada. It also participates in the administration of major Crown projects currently valued at $23 billion. All DSS procurement services are now provided on a fee-for-service basis and must take into consideration government national objectives such as competition, fairness and accessibility, and industrial and regional development. The Department's stated mission is to deliver valued services that enable its client departments to achieve their objectives (paragraphs 18.6 to 18.11).

18.2 The government strategy gives priority to competition, fairness and accessibility as the cornerstones of government procurement policy. Of the approximately $8 billion worth of goods and services procured annually through DSS, some 60 percent is procured on a competitive basis. Government policy requires that client departments' needs be clearly defined in a generic and unbiased way to ensure accessibility and fairness to all qualified suppliers. In addition, DSS is required to advise and encourage client departments to amend non-competitive procurement requests to permit competition, where an alternative product or source of supply exists. DSS' dual role of providing prompt and adequate service to client departments while ensuring compliance with government procurement policies may affect its challenge of client departments' requests for non-competitive procurement (18.15 to 18.49).

18.3 When DSS cannot establish a contract price by competition, key price components such as suppliers' cost and profit must be estimated and negotiated. DSS awards $3 billion worth of non-competitive contracts annually. It is therefore important that DSS procurement officers be given assistance in deciding when detailed price substantiation should be carried out, the extent of such substantiation and the amount of documentation required. They should also be provided with sufficient technological tools and advanced methods to enable them to substantiate price proposals effectively. The current profit policy should be revised to ensure that the profit calculated is related to the level of risk assumed by the suppliers. The price certification currently provided by suppliers in support of non-competitive, non-commercial price proposals should also include a certificate of accuracy, currency and completeness of the price support information as of the time the non-competitive contract is awarded (18.50 to 18.77).

continued

18.4 Generally, DSS has procedures in place to evaluate the technical and financial capabilities of suppliers. However, there is no corporate system to record and report on supplier and product past performance (18.90 to 18.99).

18.5 DSS, one of the largest purchasers of goods and services in Canada, is undergoing significant changes. At the same time, there are continuing changes in the complexity and technical aspects of the products procured. The training and skills of procurement officers are the key to their effectiveness in providing centralized procurement services to the Government of Canada. Therefore, DSS training programs should be comprehensive and up to date, to provide procurement officers with the appropriate skills to discharge their responsibilities (18.110 to 18.119).

Department of Supply and Services

Government Procurement and Industrial Development

19.1 The procurement process has been used by the Government of Canada over the years as an instrument for achieving industrial and regional development and other related government objectives. The practice started with a modest attempt to give preference to domestic suppliers and evolved over the years to encompass socio-economic considerations which are now called national objectives (paragraphs 19.7 to 19.11).

19.2 The government's policy defines its national objectives with respect to the procurement process. It confirms the pre-eminence of operational requirements, competition, fairness and accessibility as the cornerstones of government procurement. Second priority is given to long-term industrial and regional development, and third to other national objectives. By incorporating industrial and regional development requirements into the procurement process, the government's goal is to create long-term, sustainable economic activity in Canada that results in goods and services which are internationally competitive (19.7 to 19.11 and 19.14).

19.3 Canada is not alone; other countries also use procurement as an instrument for industrial and regional development and other related government objectives. To the extent that foreign governments incorporate domestic industrial and regional development objectives in their procurement process, the Canadian government may find it necessary to have certain requirements to develop and protect some industries where governments are usually the major customers (19.21 to 19.23).

19.4 A number of reviews carried out within government have contributed to changes in policies and practices. Achievement of specific industrial and regional development benefits targeted under procurement contracts has been monitored and reported. However, there has not been a formal evaluation of the effectiveness of using the procurement process to achieve long-term industrial and regional development objectives (19.24 to 19.26).

19.5 Before the government awards procurement contracts to suppliers without competition or with limited competition, for the purposes of industrial and regional development, domestic preference, or other related government objectives, more attention should be given to the following factors to minimize contract performance risks such as cost overruns and delays (19.27 to 19.69 and 19.81 to 19.107):

- assessing the selected suppliers' technical, managerial, and financial capabilities;

continued

- providing the selected suppliers with the required technical assistance, where cost justified;
- ensuring that suppliers' estimates of contract cost and time of delivery are realistic, taking into consideration their capabilities;
- ensuring that, where feasible, the research and product development portion of procurement projects is satisfactorily completed and tested before the actual engineering and production begin; and
- considering the suitability of awarding fixed price contracts for work that involves significant research and development where the specifications are not firm.

19.6 To enhance public confidence in the fairness and accessibility of the government procurement process there should be, where feasible, greater use of competition, one of the cornerstones of government procurement policy (19.27 to 19.29).

Department of the Secretary of State
Official Languages and Translation
Translation Bureau

20.1 Since 1985, the Translation Bureau has been greatly affected by staff reduction measures and by the obligation to increase the use of contracting. The amount of work contracted out is expected to reach 50 percent in 1994; from 1986 to 1991, it increased from 20 percent to 42.6 percent. The Translation Bureau is operating in a changing environment at a time when it is redefining its directions and the kind of organization it wants to become (paragraphs 20.15 to 20.37).

20.2 Our calculations indicate that direct production costs of translation in the Department of the Secretary of State are higher than in the private sector – 27.3 cents compared to 18.3 cents. Several factors may explain this variance: productivity, salaries and benefits and the regionalized structure of the Department (20.47 to 20.50).

20.3 Given that the Translation Bureau was not identifying its indirect costs related to translation operations, it was unable to monitor them closely enough to identify potential savings (20.52 to 20.54).

20.4 Our 1984 Report recommended that quantitative production standards be established to monitor translator performance. However, management decided instead to set individual quantitative and qualitative objectives. Although translators at the TR2 level have increased their production by 20 words per hour since 1983, 75 percent of them performed below the benchmark of 200 words per hour. We estimate that, had that standard been reached, annual savings of $1.9 million would have resulted. Moreover, translators have little incentive to produce at their highest possible levels (20.65 to 20.73).

20.5 The Translation Bureau cannot explain the overall decline in the quality of translations since 1987. Consequently, it cannot take appropriate corrective measures (20.83 to 20.92).

20.6 After more than five years of effort, and with annual operating costs of about $2.5 million, the Department's management information system still does not provide, in a timely manner, the information it needs to manage with due regard to economy and efficiency (20.96 to 20.99 and 20.176 to 20.181).

20.7 The absence of an appropriate strategy for human resource management, in an environment of downsizing and of increasing use of contractors, has led to a loss of skills by the Bureau and to changes in duties that may explain the performance level and the decline in quality (20.105 to 20.116).

continued

20.8 Our consultation with employees of the Translation Bureau indicates that the prevailing work climate is poor. Employees have clearly identified negative effects contracting out has on their work, but they are more concerned by the way contracting out is managed than by its use (20.122 to 20.127).

20.9 In the absence of a complete analysis, management was not able to determine the ultimate advantages of contracting out (20.129 to 20.133).

20.10 Since 1988-89, contracting out has resulted in average annual savings of $7.5 million in direct costs. However, this does not take into account the repercussions of contracting out on human resources and on the quality of translation. Better management of operations and human resources would have reduced the negative impacts on the work environment and made the Translation Bureau more efficient (20.137 to 20.141).

20.11 The translator certification process lacks rigour, and the imposition of sanctions on contractors is inequitable (20.151 to 20.154 and 20.160, 20.161).

20.12 The information provided to Parliament in Part III of the Estimates is incomplete (20.187 to 20.190).

Organization and Programs of the Office of the Auditor General

21.1 Under section 11 of the Auditor General Act, at the request of the Governor in Council, the Office has received orders-in-council to inquire into and report on 10 organizations (paragraphs 21.11 and 21.12).

21.2 The Office provides a variety of services to meet the needs of Members of Parliament (21.14 to 21.22).

21.3 Employment equity concerns are being addressed by the Office (21.26 to 21.29).

21.4 The Program Evaluation and Internal Audit Group serves the Auditor General directly to ensure that the Office obtains good value for money in its own expenditures (21.32).

21.5 The Office has made progress in the development of its methodology, which includes the new Comprehensive Auditing Manual (21.37 and 21.38).

21.6 Investment in new technology has provided an environment for the cost-effective exercise of professional judgment in the planning, execution and reporting of audits (21.47 to 21.52).

21.7 The Office is the secretariat to the INTOSAI Development Initiative, a training program of the International Organization of Supreme Audit Institutions, and participates in a program funded by the Canadian International Development Agency to expose international Fellows to Canadian legislative auditing (21.56 to 21.60).

21.8 The Office completed special examinations of three Crown corporations in 1990-91 (21.61 to 21.64).

Rapport du

vérificateur général du Canada

à la Chambre des communes

Points saillants 1991

© Ministre des Approvisionnements et Services Canada 1991

Nº de cat. FA2-1991

ISBN 0-662-58635-2

Avant-propos

La production de cette brochure qui renferme les points saillants tirés du Rapport annuel en est à sa quatrième année. Il faudrait la percevoir comme un élément qui se rattache à une tâche permanente : celle de communiquer avec clarté les résultats de nos vérifications.

Nos travaux de vérification ne valent que dans la mesure où nous pouvons transmettre les messages que nous véhiculons. Aux députés. Au gouvernement. Aux contribuables du Canada qui versent les dollars que dépense le gouvernement.

Le Rapport annuel du vérificateur général compte plus de 500 pages d'information en détails. Nous avons beau nous efforcer de le rendre accessible, il reste qu'il ne l'est pas facilement.

Cette brochure a deux objectifs : elle donne d'abord les points saillants de chacun des chapitres de cette année; ensuite, les renvois qui suivent chacun des points saillants permettent au lecteur de se retrouver rapidement dans le Rapport.

Les points saillants qui suivent sont très abrégés. Lorsque les lecteurs relèvent des questions qui ont un certain intérêt pour eux, je leur demande instamment de consulter le Rapport pour prendre connaissance du message détaillé.

La brochure a été bien accueillie dans le passé. J'ose espérer qu'elle continuera de s'avérer un outil utile et pratique.

Le vérificateur général du Canada,

L. Denis Desautels

L. Denis Desautels, FCA

Table des matières

Chapitre

1. Questions d'une importance et d'un intérêt particuliers 1

Autres observations de vérification

2. Notes de vérification 2

3. Suivi des recommandations formulées dans des rapports antérieurs 3

Études spéciales

4. Le régime de responsabilisation des sociétés d'État : Comment le rendre fonctionnel 5

5. Innovation et cadre de contrôle parlementaire 7

Vérifications de portée générale et vérifications spéciales

6. Les projets d'immobilisations - Le ministère des Travaux publics - Contrôle de la qualité d'immeubles déjà construits 8

7. La gestion des parcs automobiles 9

8. La gestion de la dette et les pensions des employés 11

9. Gestion et contrôle financiers des recettes non fiscales 12

Vérifications intégrées

10. Le ministère de l'Agriculture - Programmes de sécurité du revenu agricole 13

11. Le ministère de l'Environnement - Conservation et Protection 15

12. Le ministère des Affaires extérieures - Cotisations versées aux organisations internationales 16

13. Le ministère des Pêches et des Océans - Activités de la région du Centre et de l'Arctique 18

Table des matières (suite)

Chapitre **Page**

Vérifications intégrées (suite)

14. Le ministère des Affaires indiennes et du Nord canadien 20

15. Le ministère du Revenu national, Douanes et Accise - Opérations douanières 22

16. Le ministère du Revenu national, Impôt - Services aux contribuables 23

17. Le ministère des Travaux publics - Planification et location de logement de bureaux 24

18. Le ministère des Approvisionnements et Services - Gestion du service des marchés publics 25

19. Le ministère des Approvisionnements et Services - Les marchés publics et le développement industriel 27

20. Le Secrétariat d'État - Langues officielles et traduction - Le Bureau de la traduction 29

* * * * * * *

21. L'organisation et les programmes du Bureau du vérificateur général 31

Questions d'une importance et d'un intérêt particuliers

1.1 Les fonctions de tout vérificateur général sont façonnées, dans une certaine mesure, par les climats bureaucratique, politique, culturel et économique qui l'environnent. J'ai été nommé à un moment où le pays a des défis sans précédent à relever. Cette année, le Rapport traite de certaines de ces questions d'envergure nationale : les relations entre le gouvernement et les Premières nations, la nécessité d'une meilleure coordination entre les gouvernements dont les domaines de compétence se chevauchent, la protection de l'environnement et le déficit. On peut concevoir ce Rapport comme un microcosme en quelque sorte des grandes préoccupations des Canadiens, qui vont de questions précises de portée locale à des questions qui sont débattues d'un bout à l'autre du pays. J'ai l'intention, dans ce chapitre, de faire une synthèse des sujets qui reviennent souvent dans le Rapport, de ma perspective à moi, c'est-à-dire en tant que nouveau venu à Ottawa et à la lumière de mes «premières» impressions.

1.2 J'ai tendance naturellement (cela relève de ma formation professionnelle) à poser des questions. Ce chapitre sera moins axé sur des solutions aux problèmes soulevés dans le Rapport que sur des questions que ces problèmes m'amènent à poser.

1.3 Deux messages prédominent dans ce chapitre. Le premier est qu'il faut trouver des moyens de gérer avec plus d'efficacité les programmes auxquels participent plusieurs paliers de gouvernement. Le deuxième est que les gestionnaires et les ministères doivent mieux rendre compte de leurs résultats, c'est-à-dire de ce qu'ils ont réussi à faire – ou n'ont pu faire – avec l'argent des contribuables. Ce type de compte rendu, qui mettrait l'accent sur les résultats, aiderait le Parlement à prendre en considération les résultats passés au moment de l'affectation de ressources limitées.

Notes de vérification

2.1 *La Loi sur le vérificateur général* exige du vérificateur général qu'il inclue dans son Rapport annuel les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

2.2 Le chapitre consacré aux Notes de vérification joue un rôle particulier dans le Rapport annuel. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des ministères en particulier, ou bien ils donnent un compte rendu de vérifications et d'études qui portent sur des questions relatives aux activités du gouvernement dans son ensemble. Le chapitre des Notes de vérification est une compilation de faits distincts dont nous avons pris connaissance au cours de vérifications courantes des Comptes publics du Canada, des sociétés d'État et d'autres entités. Il sert également à présenter des questions précises que nous avons relevées lors de nos vérifications intégrées.

2.3 Le chapitre renferme des notes très variées. Une d'entre elles parle d'une réserve, dans le rapport du vérificateur, à l'égard des états financiers d'une société d'État pour l'exercice clos le 31 mars 1991. Les dix-huit autres notes portent sur les activités de certains ministères. Une de celles-ci a trait au contrôle du Parlement sur la taxation et une autre se rapporte à l'information transmise au sujet de l'intention d'amender la *Loi de l'impôt sur le revenu*. Dans l'ensemble, les autres notes sur les activités des ministères ont trait au respect des autorisations, aux pratiques de gestion de la trésorerie, aux contrôles exercés sur les recettes ou aux dépenses de deniers publics sans souci de l'économie.

2.4 Même si les notes signalent des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions sur des points que nous n'avons pas examinés.

Suivi des recommandations formulées dans des rapports antérieurs

3.1 Dans l'ensemble, on fait des progrès dans la prise de mesures correctives pour combler les lacunes signalées dans les rapports antérieurs.

3.2 Le ministère de l'Énergie, des Mines et des Ressources - Programmes de contribution fédéraux-provinciaux - Notre suivi a révélé une amélioration générale de l'administration, au niveau fédéral, du Fonds de développement Canada - Nouvelle-Écosse et du Fonds Canada - Terre-Neuve de développement extracôtier (paragraphes 3.34 à 3.55).

3.3 La gestion et l'utilisation des services de télécommunications dans l'administration fédérale. L'Agence des télécommunications gouvernementales a été désignée comme un organisme de service spécial. On a pris des mesures pour assurer la compatibilité des réseaux et la portabilité des applications en instituant des normes sur les technologies de l'information. L'Agence estime qu'elle économisera de 13 à 15 millions de dollars en 1991-1992 (3.92 à 3.97).

3.4 Le ministère des Affaires extérieures - Les services consulaires - Le ministère fait des progrès pour ce qui est de la mise en oeuvre des recommandations de 1989. Par exemple, on a élaboré et lancé un important programme consulaire de sensibilisation qui répond à nos préoccupations. Toutefois, les efforts amorcés à l'administration centrale, comme suite à notre recommandation sur la nécessité de mieux définir la gamme et l'étendue des services consulaires devront être mis en oeuvre au niveau des missions. Le ministère devrait pouvoir appliquer entièrement toutes nos recommandations, au plus tard le 31 mars 1992 (3.106 à 3.118).

3.5 Le ministère de la Santé nationale et du Bien-être social - Le Régime d'assistance publique du Canada - Il y a eu amélioration au chapitre de la surveillance et de la vérification du respect des dispositions du régime de la part des provinces, mais l'information communiquée au Parlement, dans le Budget des dépenses et dans les rapports annuels, n'est toujours pas satisfaisante (3.131 à 3.139).

3.6 Le ministère des Transports - La Garde côtière canadienne - La protection des intérêts des navigateurs et du public - Nous avons constaté des progrès dans certains secteurs, mais il reste beaucoup à faire pour donner entièrement suite à nos observations et recommandations qui visent à accroître la sécurité des navigateurs et du public (3.161 à 3.167).

suite

3.7 Le ministère des Transports - La Garde côtière canadienne - La gestion de la flotte, le balisage et le déglaçage - La Garde côtière, après analyse de ses besoins en matière de flotte de balisage, procède à une réduction de la flotte en conséquence. Nous trouvons préoccupant le temps qu'il faut pour donner suite à nos observations et à nos recommandations en ce qui concerne la flotte de brise-glace et l'entretien (3.168 à 3.177).

3.8 La Commission de l'emploi et de l'immigration du Canada - Le Compte d'assurance-chômage - La Commission a pris plusieurs mesures qui font suite de façon satisfaisante à nos observations et à nos recommandations et elle a récemment élaboré et mis en oeuvre d'autres mesures correctrices, lesquelles feront l'objet d'une future vérification ou d'un suivi. La Commission a sélectionné des indicateurs de rendement de la Stratégie de réemploi des prestataires, pour 1991-1992, mais ce n'est qu'après leur implantation que nous serons en mesure d'évaluer les progrès réels accomplis dans le réemploi des prestataires de l'assurance-chômage (3.178 à 3.190).

Le régime de responsabilisation des sociétés d'État :
Comment le rendre fonctionnel

4.1 Les sociétés d'État représentent une partie importante de l'ensemble des activités du gouvernement. En décembre 1990, on comptait 57 sociétés d'État mères. Leurs activités, dans de nombreux secteurs de l'économie canadienne - transports, exploitation des ressources, commercialisation, commerce international, finances, recherche, culture - ont nécessité plus de 4,6 milliards de dollars en crédits parlementaires en 1989-1990.

4.2 Les modifications apportées en 1984 à la *Loi sur l'administration financière*, devenue depuis la *Loi sur la gestion des finances publiques* (LGFP), ont renforcé le régime de contrôle et de responsabilisation (obligation de rendre compte) des sociétés d'État. En 1989, nous avons indiqué que de grands progrès avaient été réalisés dans la mise en oeuvre des principales dispositions de la Loi. En 1990, nous avons parlé de notre expérience avec le régime de vérification établi en vertu de la Partie X de la LGFP.

4.3 Comme nous l'avons signalé dans les rapports antérieurs, il y a quatre aspects qui nécessitent un effort concerté (paragraphes 4.12 à 4.14).

4.4 Dans leur rapport annuel, les sociétés d'État doivent divulguer la mesure dans laquelle elles ont atteint leurs objectifs. Même s'il y a eu amélioration depuis cinq ans, la majorité des sociétés d'État ne se conforment pas à cette exigence. Mesurer les résultats et en faire rapport n'est certes pas facile, mais tant dans le secteur public que dans le secteur privé, on considère qu'il s'agit de bonnes pratiques de gestion. Ces pratiques constituent en outre un élément essentiel de la reddition des comptes des sociétés d'État au Parlement (4.15 à 4.48).

4.5 Les sociétés d'État ne déclarent pas les sommes reçues sous forme de crédits parlementaires de façon claire et uniforme. Par conséquent, il est difficile de déterminer, en parcourant les états financiers des sociétés d'État, le total du financement reçu du Parlement ou de faire une comparaison significative des résultats financiers de leurs opérations, ce qui réduit considérablement l'utilité de ces états financiers comme moyen de rendre des comptes (4.49 à 4.65).

4.6 La vérification interne a un vaste mandat et joue un rôle important dans le régime de responsabilisation. D'après les observations que nous avons faites au cours du premier cycle d'examens spéciaux, la fonction de vérification interne a encore beaucoup à faire, dans plusieurs sociétés d'État, pour assumer pleinement ces responsabilités. Il faudra pour cela un fort appui de la direction, ainsi que la participation active du comité de vérification du conseil d'administration des sociétés (4.66 à 4.79).

suite

4.7 En 1989, nous nous sommes dits inquiets du fait que huit sociétés étaient exemptées de la Partie X de la LGFP. Entre-temps, nous avons constaté que des mesures avaient été prises en vue de l'adoption de dispositions législatives à l'égard de l'une de ces sociétés. Sept sociétés sont toutefois toujours exemptées des principales dispositions du régime de responsabilisation et deux nouvelles sociétés le seront bientôt (4.80 à 4.96).

4.8 Même si des progrès considérables ont été réalisés dans la mise en oeuvre d'un bon nombre de dispositions de la Partie X de la LGFP, il faudra d'autres efforts de toutes les parties intéressées pour s'assurer que les quatre lacunes relevées au chapitre de la mise en oeuvre sont corrigées (4.97 à 4.101).

Innovation et cadre de contrôle parlementaire

5.1 Au fil des ans, le gouvernement a créé des commissions royales d'enquête et a fait faire des études pour examiner les pratiques de gestion de la fonction publique fédérale. La dernière a mené à une politique de réforme de la fonction publique qui vise à améliorer les services au public, Fonction publique 2000 (FP 2000). Le Bureau endosse les objectifs de ce projet. Les changements proposés sont importants en raison tant des ministères et organismes qu'ils touchent que de la variété de problèmes sur lesquels ils portent. Leur mise en oeuvre vient à peine de commencer (paragraphes 5.6 et 5.10).

5.2 L'étude dont fait l'objet le présent chapitre avait pour but de déterminer, au début du processus de réforme, si nous estimions qu'il fallait accorder plus d'attention à certains aspects des changements au fur et à mesure qu'ils seront apportés. Plus particulièrement, nous avons examiné les indications données aux gestionnaires sur la façon d'opérer les changements souhaités tout en répondant aux exigences du contrôle parlementaire (5.24, 5.25 et 5.29).

5.3 Nous avons pris comme exemple un certain nombre de pratiques novatrices, motivées en partie par les contraintes financières, au ministère des Pêches et des Océans, pour illustrer notre propos. Elles montrent l'initiative de gestionnaires de la côte du Pacifique et de la côte de l'Atlantique qui voulaient améliorer la prestation des services tout en réduisant les coûts. Toutes les mesures ont été instaurées avant les réformes entreprises actuellement, certaines il y a plus de deux ans, mais les gestionnaires en cause considèrent qu'elles sont compatibles avec un grand nombre des objectifs visés par Fonction publique 2000. Elles montrent la détermination de certains fonctionnaires à améliorer les programmes, à atteindre les objectifs et à répondre aux besoins des pêcheurs tout en minimisant les dépenses du ministère (5.30 à 5.39, 5.43 à 5.48 et 5.57).

5.4 Dans ces cas, les fonctionnaires du ministère ont fait preuve d'innovation dans la recherche de solutions pour améliorer le service, et ils les ont appliquées dans une bonne intention. Cependant, en raison de l'approche particulière que les gestionnaires des pêches ont choisie pour mettre en oeuvre leurs solutions et les financer, ces initiatives ne satisfont pas, à notre avis, aux exigences du contrôle parlementaire. Le gouvernement nous a fait savoir qu'il y a d'autres cas au ministère des Pêches et des Océans et à d'autres ministères où les gestionnaires ont su faire preuve d'innovation dans les limites du cadre de contrôle parlementaire (5.40 à 5.42, 5.49 à 5.54 et 5.58).

5.5 Comme on peut le voir dans nos illustrations, certains gestionnaires ont eu de la difficulté à concilier certaines initiatives, prises pour améliorer les services et réagir aux contraintes financières, avec le cadre de contrôle parlementaire. Étant donné qu'un cadre de contrôle parlementaire adéquat fait partie de la nouvelle culture préconisée par Fonction publique 2000, il est important, pendant cette période de changement, que les gestionnaires apprennent, grâce à la formation et aux instructions qui sont données, comment ce cadre sera appliqué dans le nouveau milieu (5.24 à 5.29 et 5.56).

Les projets d'immobilisations

Le ministère des Travaux publics - Contrôle de la qualité d'immeubles déjà construits

6.1 Le portefeuille immobilier du gouvernement du Canada est évalué à 60 milliards de dollars, ce qui représente un pourcentage important de la dette publique nette (paragraphe 6.11).

6.2 Cette première évaluation de la qualité de ces éléments d'actif qu'a faite notre Bureau ne visait que l'examen, sur une base expérimentale, de deux immeubles à bureaux polyvalents, dans le but d'élaborer une méthode et de la mettre à l'essai (6.17 et 6.18).

6.3 La méthodologie, élaborée et éprouvée sur le terrain, pourra être utilisée, avec quelques modifications, lors des prochaines vérifications d'immeubles et lors des examens de rendement d'immeubles qui font partie des plans de gestion des biens du ministère des Travaux publics et d'autres ministères (6.18).

6.4 Nous avons constaté que les deux immeubles étaient conçus et construits selon les normes commerciales en vigueur à l'époque (6.21 et 6.78).

6.5 Si on s'arrête aux contraventions au Code national de prévention des incendies du Canada dans les deux immeubles que nous avons vérifiés, il convient de s'interroger sur la qualité de leur conception, la construction, l'inspection, la mise en service et la gestion des opérations (6.21 à 6.23, 6.59 à 6.67 et 6.87 à 6.92).

6.6 Il n'existe aucun plan complet de sécurité incendie pour les deux immeubles (6.67 et 6.92).

6.7 De grands panneaux de béton préfabriqué situés dans la partie supérieure de l'enveloppe d'un des deux immeubles sont fissurés et leurs ancrages se corrodent (6.26 et 6.49).

6.8 Les deux immeubles comprennent des éléments de construction qui rendent inutilement difficile l'accessibilité pour les personnes handicapées et qui ne sont pas entièrement conformes à la politique du gouvernement sur la facilité d'accès (6.21, 6.24, 6.25, 6.68 à 6.72 et 6.93 à 6.95).

6.9 Le système de chauffage, de ventilation et de conditionnement d'air d'un des immeubles a coûté 5,9 millions de dollars de plus que d'autres systèmes plus efficaces et plus économiques disponibles à l'époque de la construction (6.28 et 6.29).

6.10 Les deux immeubles comportent des lacunes au niveau de la qualité de l'air, de l'éclairage, de l'acoustique et de l'utilisation des lieux (6.50 à 6.54, 6.56, 6.58, 6.68 à 6.74, 6.83 à 6.86 et 6.93 à 6.96).

La gestion des parcs automobiles

7.1 Nous avons vérifié la gestion des parcs automobiles dans six ministères qui, ensemble, gèrent environ les deux tiers du parc automobile de l'administration fédérale. Celle-ci compte près de 29 000 véhicules commerciaux standard achetés au coût de 470 millions de dollars (paragraphe 7.18).

7.2 Il y aurait possibilité d'améliorer grandement la gestion des parcs automobiles. Les problèmes méritent un examen approfondi de la part du Conseil du Trésor et des ministères (7.21).

7.3 La planification des moyens de transport laisse généralement à désirer. Habituellement, les besoins en matière de transport ne sont pas définis en fonction des objectifs visés par les programmes et services. Les ministères se demandent rarement si les véhicules ont toujours leur utilité (7.22 et 7.25).

7.4 En général, les véhicules sont achetés en fonction de leur prix initial, et nous avons constaté qu'effectivement, le ministère des Approvisionnements et Services (MAS) obtient de nouveaux véhicules à des prix comparables à ceux dont bénéficient les gestionnaires d'importants parcs automobiles du secteur privé. Cependant, les considérations environnementales et les composantes des coûts du cycle de vie, par exemple le coût de l'entretien à long terme, ne sont pas encore pris en compte dans les achats, contrairement à ce qu'avait demandé le Conseil du Trésor (7.26, 7.28 et 7.29).

7.5 Une plus grande uniformisation des parcs automobiles des ministères pourrait accroître les économies sur les frais d'acquisition, d'administration et d'utilisation (7.26 et 7.27).

7.6 Nous avons trouvé des indications de sous-utilisation de véhicules et d'économies possibles dans certains des ministères et ce, en utilisant une norme d'utilisation annuelle peu élevée. Par exemple, en se fondant sur les résultats d'une étude approfondie, le ministère des Transports envisage de réduire substantiellement son parc automobile, ce qui lui fera économiser environ 8,75 millions de dollars en deux ans (7.30).

7.7 Les ministères ont autorisé un grand nombre d'employés à amener les véhicules à leur domicile dans des cas où ils pouvaient devoir retourner au travail après les heures normales de travail. Cependant, ils n'ont pas établi de moyens de calculer les avantages que cette pratique pourrait constituer aux fins de l'impôt sur le revenu (7.31).

suite

7.8 Les ministères et le MAS ont investi des ressources considérables dans les systèmes d'information de gestion des véhicules. D'après une évaluation qu'a faite le Conseil du Trésor, la plupart des ministères n'ont pas trouvé cette information utile. Nous avons constaté que les systèmes du ministère de la Défense nationale et du ministère des Transports n'étaient pas complets ni suffisamment fiables pour servir à la gestion du parc automobile. Aucun ne pouvait produire rapidement de rapports sur les véhicules pour lesquels l'utilisation, les coûts ou les réparations différaient beaucoup de la norme (7.32 et 7.33).

7.9 Quatre des cinq ministères vérifiés ne se défont pas des véhicules désignés comme «excédentaires» dans des délais raisonnables. On estime à un million de dollars ce que cette pratique a coûté à l'État, dans un des ministères seulement (7.35).

La gestion de la dette et les pensions des employés

8.1 Une partie importante du déficit budgétaire annuel du gouvernement fédéral est financée au moyen d'emprunts internes sur les comptes administrés par le gouvernement pour des tiers. L'emprunt interne le plus important a été contracté sur les comptes de pensions des employés fédéraux. C'est ainsi qu'à la fin de 1989-1990, 71 milliards de dollars, soit environ 18 p. 100 des 399 milliards de dollars de la dette publique brute, étaient dus aux comptes de pensions des employés. Si les projections du ministère des Finances selon lesquelles le financement extérieur sera réduit à zéro d'ici 1994-1995 sont exactes, la somme due aux comptes de pensions des employés constituera 23 p. 100 du total de la dette publique (paragraphes 8.8 et 8.9).

8.2 Les répercussions financières à long terme des emprunts sur les comptes de pensions n'ont pas été étudiées depuis l'entrée en vigueur de la loi actuelle sur les pensions, en 1954. À cause de certains événements qui se sont produits depuis lors, on se demande si les mécanismes de financement actuels sont ceux qui conviennent le mieux et s'il n'y aurait pas lieu de les évaluer (8.27 à 8.39).

8.3 L'intérêt (revenu théorique de placement) porté au crédit des comptes de pensions est fondé sur les taux des intérêts créditeurs à long terme du gouvernement. On s'accorde généralement sur le fait que ces taux sont de 1 à 2 p. 100 inférieurs, en moyenne et à long terme, aux taux de rendement des régimes dont l'actif est placé dans des valeurs négociables. Ainsi, le gouvernement doit combler des déficits actuariels plus élevés (8.40 à 8.45).

8.4 En même temps, les emprunts internes sur les comptes de pensions reçoivent peu d'attention de la part des gestionnaires de la dette du ministère des Finances parce que ce sont des opérations hors caisse (8.46 à 8.49).

8.5 Pendant des années, les cotisations ont dépassé les pensions, ce qui a permis de développer les emprunts internes et de réduire ainsi les besoins d'emprunt externe. Cependant, les paiements de pension dépassent maintenant les cotisations, si bien que les besoins de liquidités sont plus élevés pour le gouvernement. Ce renversement de situation est dû, en partie, à la baisse du ratio des cotisants aux bénéficiaires. Néanmoins, les emprunts sur les comptes de pensions continuent d'augmenter, surtout parce que l'intérêt porté à ces comptes est composé (8.50 à 8.56).

8.6 Nous avons également constaté que les renseignements relatifs aux pensions et à la dette publique contractée envers les comptes de pensions ne sont pas présentés clairement dans le Budget des dépenses et dans les Comptes publics. Il s'ensuit que les emprunts internes sur les comptes de pensions et les autres comptes à fins déterminées ne sont pas examinés par le Parlement avec la même attention que les emprunts souscrits auprès du grand public (8.59 à 8.72).

Gestion et contrôle financiers des recettes non fiscales

9.1 Les résultats de cet examen sont encourageants. Ils indiquent que les organismes centraux et ministères sont en voie de prendre des mesures pour améliorer la gestion et le contrôle financiers des recettes non fiscales. Au moment où l'État tente d'accroître ses recettes non fiscales et que des changements sont apportés à la politique administrative et au contrôle exercé par le Parlement, il faut faire un usage plus efficace des mesures incitatives, améliorer l'information et accroître le contrôle (paragraphes 9.21 à 9.23).

9.2 Le rôle des organismes centraux est en voie de se modifier; ils se préoccupent davantage de la façon dont les ministères gèrent les recettes non fiscales (9.23 à 9.29). Il est nécessaire de mieux définir le degré de surveillance que doivent exercer le Secrétariat du Conseil du Trésor et le Bureau du contrôleur général sur l'activité relative aux recettes non fiscales et sur ses résultats, et les ministères doivent en être mis au courant (9.30 à 9.33). Ces deux organismes ont effectué certains travaux importants et ils en poursuivent d'autres (9.34 à 9.40).

9.3 On cherche une approche qui s'apparenterait davantage à celle du secteur privé (9.41 à 9.48). Il faudrait que les ministères accordent plus d'importance à déceler des sources éventuelles de recettes non fiscales et à les exploiter (9.49 à 9.52). Il est probable que des millions de dollars de recettes non fiscales ne sont pas générés (9.53 à 9.56).

9.4 Pour que la nouvelle politique sur les frais d'utilisation puisse être appliquée avec succès, il faudra concevoir des stratégies qui tiennent compte des coûts et des avantages pour toutes les parties et fixer les droits en conséquence (9.57 à 9.63).

9.5 Afin d'accroître son utilité, il faut améliorer l'information destinée au Parlement sur l'activité relative aux recettes non fiscales et sur ses résultats (9.64 à 9.73).

9.6 Les produits de placements sont en général perçus et inscrits en temps opportun (9.74). La perception, le contrôle et la comptabilisation des autres recettes non fiscales (9.75 à 9.78) comportent diverses lacunes. Il faudrait songer à d'autres moyens de perception, par exemple, confier tous les comptes à un organisme, faire affaire avec des agences de recouvrement et déduire les sommes dues par l'État des sommes qu'on lui doit (9.79).

Le ministère de l'Agriculture
Programmes de sécurité du revenu agricole

10.1 Le ministère de l'Agriculture administre un groupe de programmes, désigné sous le nom de programmes de sécurité du revenu agricole, qui comprend le Programme d'assurance-récolte, le Programme national tripartite de stabilisation (PNTS), les paiements versés en vertu de la *Loi sur la stabilisation des prix agricoles* (LSPA) et de la *Loi de stabilisation concernant le grain de l'Ouest* (LSGO), ainsi que divers programmes spéciaux comme le Programme spécial canadien pour les grains (PSCG) et le Programme canadien d'aide aux agriculteurs victimes de la sécheresse (PCAAVS). L'aide consentie à l'agriculture canadienne par le truchement de ces programmes a représenté quelque 7,6 milliards de dollars, de 1986-1987 à 1990-1991 (paragraphes 10.8, 10.12, 10.15, 10.18 et 10.19).

10.2 La dernière fois que nous avons effectué une vérification intégrée des programmes de sécurité du revenu agricole, c'était en 1986; nous avions alors cerné certains problèmes concernant l'évaluation de l'efficacité et les mécanismes de rapport, ainsi que la gestion et le contrôle financiers. Cette année, notre vérification porte à nouveau sur ces secteurs par rapport à deux types de programmes de sécurité du revenu gérés par le ministère, soit ceux destinés à protéger les producteurs contre les risques du marché et contre les risques de la production (calamités naturelles) (10.21 à 10.23).

10.3 Depuis notre dernière vérification, le ministère a effectué peu de mesures continues du rendement ou d'évaluations de ces programmes. Par conséquent, la direction a reçu peu d'information fiable sur les répercussions et les effets de ces programmes (10.36 à 10.47).

10.4 Certains de ces programmes sont tenus par la loi de s'autofinancer. Comme le ministère n'a pas défini le terme «autofinancement», les gestionnaires ont du mal à savoir si un programme satisfait à cette exigence et, donc, si le déficit qu'il risque d'entraîner peut être réduit substantiellement. En outre, étant donné que les responsabilités n'ont pas toujours été parfaitement délimitées, on ne sait pas vraiment qui est responsable du déficit lorsqu'un programme ne s'autofinance pas (10.50 à 10.56).

10.5 La plupart de ces programmes sont exécutés dans le cadre d'ententes fédérales-provinciales. Nous pensions que la rédaction et l'approbation de ces ententes feraient l'objet d'un processus contrôlé de près, avec la participation des experts du ministère en matière de services juridiques, de comptabilité, de vérification et de programmes. Malgré l'importance de ces ententes, nous avons constaté que le processus n'est pas bien contrôlé. Dans le cadre des accords, certains aspects clés, tels que les objectifs, les responsabilités, l'obligation de rendre compte et le partage des coûts, ne sont pas clairement définis. Ces lacunes sont lourdes de conséquences (10.63 à 10.66).

suite

10.6 Selon les modalités d'application de la plupart des ententes, les provinces jouent un rôle important dans l'exécution des programmes, ce qui inclut s'assurer que les producteurs se conforment aux conditions d'application des programmes et recueillir les données essentielles à la mise en oeuvre de ceux-ci. Dans l'état actuel des choses, le ministère autorise certaines contributions fédérales et demande des avances de fonds pour financer les déficits des programmes sans avoir une assurance raisonnable que les provinces et les producteurs se sont conformés aux modalités d'application de l'entente (10.67 à 10.70).

10.7 Le ministère connaît, depuis un certain temps déjà, bon nombre des problèmes dont nous signalons l'existence dans le présent chapitre; en effet, nous les avons soulevés lors de notre vérification de 1986 et le ministère les a signalés dans ses propres études internes. Mais il a fait peu de progrès dans l'application de nos recommandations de 1986, malgré son engagement face au Comité des comptes publics à cet égard. Au cours de cette période, il a été très occupé à concevoir et à mettre au point un nouveau texte de loi et des programmes correspondants. Or, nos recommandations d'alors s'appliquent toujours aux programmes déjà existants et sont tout aussi pertinentes pour la mise en oeuvre des nouveaux programmes (10.93 à 10.99).

Le ministère de l'Environnement

Conservation et Protection

11.1 Le partage des pouvoirs entre les gouvernements fédéral et provinciaux, en vertu de la *Loi constitutionnelle*, ne fait aucune mention explicite de l'environnement. Chaque niveau de gouvernement exerce des pouvoirs qui ont des répercussions sur l'environnement. Puisque les compétences en matière d'environnement se chevauchent, il est essentiel que les gouvernements fédéral, provinciaux et territoriaux oeuvrent ensemble pour le bien-être environnemental du Canada (paragraphes 11.13 à 11.19).

11.2 Le ministère de l'Environnement n'a pas clarifié avec les provinces leurs responsabilités et pouvoirs respectifs en ce qui concerne les activités d'incitation au respect de la loi et de mise en application et n'a pas négocié avec elles d'ententes qui permettent d'atteindre, avec efficience et efficacité, les buts en matière de qualité de l'environnement (11.29, 11.41 et 11.42).

11.3 On n'a pas clairement défini les priorités au chapitre des activités d'incitation au respect de la loi et de mise en application (11.45 à 11.48).

11.4 Les activités d'incitation au respect de la loi et de mise en application ne sont pas surveillées et évaluées comme il se doit (11.43, 11.47 et 11.54 à 11.57).

11.5 L'information qui sert à la planification et au contrôle de gestion ne permet pas de veiller à ce que les activités d'incitation au respect de la loi et de mise en application soient gérées avec un souci de l'économie et de l'efficience, à ce que les lois et les règlements soient appliqués uniformément et à ce qu'ils soient respectés (11.52, 11.54 et 11.55).

11.6 D'aucuns considèrent l'Accord relatif à la qualité de l'eau dans les Grands Lacs et la structure de son instauration comme un bon modèle pour les pays qui ont des ressources communes à gérer (11.64).

11.7 Les dispositions de l'Accord relatif à la qualité de l'eau dans les Grands Lacs exigent la mise en oeuvre de plans opérationnels et de plans de mesures correctives. Ces plans ne comportent pas de buts et de délais précis qui pourraient servir à rendre les gestionnaires comptables des résultats obtenus. À notre avis, cette lacune a freiné les progrès des mesures prises pour remédier à la pollution toxique qui sévit dans les Grands Lacs, bien qu'il y ait eu d'importantes réductions de certaines matières polluantes (11.69 à 11.76).

11.8 L'information destinée au Parlement sur les activités d'incitation au respect de la loi et de mise en application que mène le ministère et sur la contribution du Canada à la prévention de la pollution dans les Grands Lacs et à leur dépollution ne permet pas une obligation de rendre compte qui soit satisfaisante (11.93 à 11.110).

Le ministère des Affaires extérieures

Cotisations versées aux organisations internationales

12.1 Pour le ministère des Affaires extérieures, la coopération multilatérale est au coeur des objectifs de la politique étrangère du Canada. Conformément à son engagement envers la coopération multilatérale, le Canada s'est fait une règle au fil des ans d'adhérer à la plupart des organisations internationales, par exemple, l'Organisation des Nations Unies et ses institutions spécialisées, et de participer à la plupart des tribunes internationales. La contribution du Canada aux organisations internationales est supérieure, par habitant, à celle de la plupart des pays industrialisés (paragraphes 12.5 à 12.7).

12.2 Chaque année, la concurrence pour obtenir des fonds publics s'intensifie tandis que de nouvelles activités doivent être financées. De nouveaux problèmes émergent à l'échelle mondiale, alors que de nombreuses questions demeurent sans solution. Désormais, le ministère devra veiller à ce que la gestion de ses activités de coopération multilatérale soit plus rigoureuse. La situation financière actuelle exige des choix difficiles (12.86).

12.3 Le ministère et le Parlement seraient en meilleure position de prendre des décisions avisées si l'on changeait la façon de gérer et de rendre compte des activités multilatérales, soit :

- formuler plus clairement les objectifs et les priorités de la politique étrangère en ce qui a trait à la participation aux activités multilatérales et veiller à une meilleure planification des activités (12.23 à 12.30);
- «prendre du recul» et évaluer périodiquement si, et jusqu'à quel point, l'appartenance à une organisation internationale sert les objectifs de la politique étrangère canadienne. Des représentants du ministère nous ont mentionné qu'ils s'interrogent sur certains programmes ou particularités de quelques organisations, dont l'Organisation internationale du travail et l'Organisation des Nations Unies pour l'alimentation et l'agriculture (12.31 à 12.40);
- développer des façons innovatrices d'amener la réforme administrative de certains organismes de l'Organisation des Nations Unies (ONU). Leur administration n'a pas évolué sensiblement malgré les efforts soutenus du Canada à cet effet depuis de nombreuses années, aussi bien à titre individuel qu'en collaboration avec d'autres pays industrialisés (12.41 à 12.62);
- préciser les relations et les responsabilités en matière de coordination entre les ministères participants (12.63 à 12.76);

suite

- mettre à la disposition du Parlement des données plus complètes pour justifier l'utilisation des ressources affectées aux activités multilatérales et renforcer le consensus quant au rôle du Canada, aux objectifs de sa politique étrangère et aux moyens choisis pour mettre en oeuvre ces activités (12.77 à 12.84).

12.4 Le ministère peut tirer d'utiles leçons de sa longue et vaste expérience au sein d'organisations internationales. Implanter les changements que nous recommandons permettrait au Canada de retirer davantage de sa participation aux organisations internationales. Ainsi, de concert avec d'autres pays, le Canada pourrait contribuer à améliorer la gestion à l'intérieur du système des Nations Unies (12.85).

Le ministère des Pêches et des Océans

Activités de la région du Centre et de l'Arctique

13.1 La région du Centre et de l'Arctique du ministère des Pêches et des Océans (MPO) fait face à plus de demandes qu'elle ne peut en satisfaire, surtout en cette période d'austérité qui perdure (paragraphe 13.75). Celles-ci comprennent la délégation de responsabilités aux provinces et aux territoires (13.18), la participation au règlement des revendications territoriales des autochtones (13.37), l'élargissement du rôle du ministère dans les évaluations environnementales (13.30), la mise en place d'une politique nationale de gestion de l'habitat du poisson (13.25) et le traitement de questions scientifiques et environnementales importantes comme la contamination par des substances toxiques, les pluies acides et les changements climatiques (paragraphe 13.50).

13.2 Nous avons remarqué que la Région s'efforce de satisfaire ces demandes par différents moyens dont la mise en oeuvre d'ententes officieuses de coopération avec les provinces (13.24), l'élaboration de procédés d'étude de projets sur l'habitat qui lui sont référés (13.31), la participation à des conseils de cogestion dans l'Arctique (13.47), le relevé des stocks de poisson prioritaires dans l'Arctique (13.43) et l'utilisation accrue des sources de financement extérieures pour appuyer les projets scientifiques (13.57).

13.3 **Délégation de responsabilités aux provinces.** La question de l'étendue et de la nature des responsabilités qui doivent être déléguées aux provinces du Centre n'est toujours pas réglée. On est dans l'attente de la clarification de l'habitat du poisson ainsi que des responsabilités environnementales qui s'y rattachent. Si on tient compte de ce manque de clarté dans le partage des responsabilités, le ministère risque d'éprouver des difficultés à déterminer jusqu'à quel point les activités de gestion des pêches et de l'habitat sont menées à bien (13.15 à 13.18).

13.4 **Gestion de l'habitat du poisson.** La mise en place de la Politique de gestion de l'habitat du poisson a connu une lente progression (13.25) par suite de retards à conclure des ententes de délégation avec les provinces du Centre et du surcroît de pression sur le programme qu'a engendré l'élargissement du rôle du ministère dans les évaluations environnementales (13.27 et 13.30). Pendant ce temps, les provinces ont assumé des responsabilités en matière de gestion de l'habitat fondées sur des ententes officieuses et ce, sans le suivi du ministère des Pêches et des Océans (13.23 et 13.24). Le nombre limité de systèmes d'information et de bases de données a été une autre entrave à la mise en place de la politique et du programme de gestion de l'habitat (13.29).

suite

13.5 Gestion des pêches dans l'Arctique. La gestion des pêches du Nord par la région du Centre et de l'Arctique a été entravée par une période prolongée de changement et d'incertitude, en grande partie hors du contrôle du ministère (13.37 et 13.38). Dans ce contexte, la Région a de la difficulté à mettre en place un programme arctique (13.39 et 13.40). Il faut plus de données et de renseignements afin de satisfaire à la fois les besoins de la Région et remplir les obligations du ministère en matière de règlement des revendications territoriales (13.41 à 13.45).

13.6 Établissement des priorités de la science. La science constitue le point fort et l'épine dorsale de la Région et on estime beaucoup le travail scientifique qui y est fait (13.49 et 13.55). Les contraintes budgétaires et les graves problèmes que connaissent les pêches côtières limitent l'aptitude de la Région à influencer l'établissement des priorités à l'échelle nationale (13.52 à 13.56). Le financement croissant qui vient de l'extérieur pour appuyer une grande partie de l'activité scientifique est assujetti aux priorités et aux échéanciers dictés par le client, ce qui est de nature à miner le processus d'établissement des priorités du ministère (13.57 à 13.61).

Le ministère des Affaires indiennes et du Nord canadien

14.1 Justification insuffisante de l'emploi des fonds. Soixante-douze pour cent (1,9 milliard de dollars) du budget de 2,6 milliards de dollars du ministère des Affaires indiennes et du Nord canadien (MAINC), destiné à la prestation de biens et de services aux peuples indiens, est administré directement par les bandes ou les conseils tribaux. Le MAINC doit répondre de ces fonds devant le Parlement, mais il ne sait pas toujours s'ils sont utilisés aux fins prévues ou s'ils sont administrés avec économie, efficience et efficacité (paragraphes 14.15 à 14.20).

14.2 Dépendance des Indiens pour le logement et nombre insuffisant de logements. Les Indiens inscrits qui vivent dans les réserves n'ont pas droit à l'aide versée pour le logement par les gouvernements provinciaux et municipaux comme les autres Canadiens. Par ailleurs, la *Loi sur les Indiens* les empêche d'obtenir des prêts des établissements financiers privés ou d'investir leurs propres capitaux dans le logement sur les réserves. Par conséquent, ils dépendent entièrement du gouvernement fédéral pour ce qui est de l'aide au logement. Bien que le MAINC ait pour politique de fournir son aide afin d'assurer des logements convenables, le ministère n'a pas précisé si cette aide est un avantage qui est accordé aux Indiens ou un droit, comme le revendiquent les associations autochtones (14.21 à 14.31).

14.3 Le MAINC estime qu'il en coûterait jusqu'à 840 millions de dollars pour construire les 10 000 à 11 000 unités de logement qui manquent actuellement. Le MAINC n'a pas de plan stratégique pour régler ce problème critique (14.32 à 14.33).

14.4 Modifications à la *Loi sur les Indiens (Loi C-31)* en 1985. Le MAINC estime qu'il en coûtera plus de 2 milliards de dollars au cours des dix prochaines années pour appliquer la *Loi C-31*, le gouvernement s'étant engagé à satisfaire aux demandes accrues relativement au logement, à l'éducation ainsi qu'à la santé et aux soins dentaires pour les Indiens inscrits nouvellement rétablis dans leurs droits (14.34 à 14.41).

14.5 Revendications particulières. En vertu de la *Loi sur les Indiens* et des traités indiens, le MAINC doit administrer les terres de réserve et les deniers des bandes. Quelque 600 revendications particulières contre le ministère ont été présentées en invoquant comme motif une mauvaise administration de ces biens. Bien que le gouvernement fédéral se soit engagé à améliorer le processus, plus de la moitié des revendications reçues au cours des 20 dernières années n'étaient toujours pas réglées à l'automne de 1990. Nous croyons qu'il faudrait un engagement réel de tous les intervenants pour parvenir à réduire les délais de traitement (14.53 à 14.75).

suite

14.6 Depuis 1976, le MAINC a versé environ 50 millions de dollars aux associations ou bandes indiennes aux fins des recherches sur les revendications. Le MAINC ne sait pas dans quelle proportion les fonds destinés aux recherches ont été utilisés à cette fin (14.76 à 14.78).

14.7 Au moment où nous achevions notre vérification, le gouvernement a annoncé de nouvelles initiatives en vue de régler les questions autochtones, y compris les revendications particulières (14.94).

Le ministère du Revenu national, Douanes et Accise

Opérations douanières

15.1 Les Douanes appliquent leurs propres lois et aident à en administrer plus de 70 autres. De plus, le ministère s'efforce de servir la population en facilitant le passage des marchandises et des voyageurs à la frontière. Nous avons examiné deux programmes que les Douanes gèrent au nom d'autres ministères, soit ceux qui se rapportent aux drogues illicites et aux matières dangereuses. Sur le plan de la facilitation, nous avons examiné certaines initiatives prises pour rationaliser le traitement des voyageurs et les opérations commerciales (paragraphes 15.6 à 15.16).

15.2 Nous croyons que les initiatives concernant les voyageurs devraient être mieux planifiées. Même si le ministère effectue un troisième essai-pilote sur l'aménagement de voies spéciales ou express, la circulation reste congestionnée à de nombreux postes-frontière. De plus, les restrictions en matière d'installations nuisent aux opérations. Par ailleurs, la dernière initiative d'automatisation des caisses semble prometteuse (15.17 à 15.46).

15.3 Les initiatives prises dans le secteur commercial, que nous avons examinées, sont bien accueillies par les courtiers ainsi que par les importateurs qui effectuent eux-mêmes leur dédouanement. Selon eux, ces initiatives contribuent à accélérer l'accès aux marchandises et à exercer un meilleur contrôle de la qualité sur l'établissement des documents de déclaration en détail (15.47 à 15.57).

15.4 Les statistiques sur les saisies indiquent que le ministère joue un rôle important pour ce qui est d'empêcher l'entrée de drogues illicites au Canada. Cependant, le ministère ne possède ni méthode globale pour évaluer les risques ni plan pour réprimer la contrebande et, en ce qui concerne les renseignements sur les drogues, il n'a pas exploré à fond tous les aspects de la collecte, du partage, de l'analyse et de la diffusion des données. En outre, les agents ne possèdent pas toujours les outils et les installations nécessaires à l'examen des drogues illicites. Le ministère pourrait améliorer la formation et l'évaluation du rendement pour cette activité d'exécution (15.58 à 15.82).

15.5 Le ministère doit contrôler l'importation des matières dangereuses, bien qu'à cet égard son rôle ne soit pas clairement défini. Par contre, il n'a établi aucun programme précis et n'a conclu aucun accord avec d'autres ministères, sauf celui de l'Environnement, pour appliquer les lois en ce domaine. D'ailleurs, l'entente avec le ministère de l'Environnement vient à peine d'entrer en vigueur (15.83 à 15.108).

Le ministère du Revenu national, Impôt

Services aux contribuables

16.1 Le ministère du Revenu national, Impôt s'est engagé à améliorer ses services aux contribuables. Au cours des dernières années, il a fait un examen approfondi de ses opérations, a changé certaines de ses méthodes, a davantage automatisé ses opérations et a étendu la portée de ses services. Malgré cela, la qualité de certains des services offerts n'atteint pas les niveaux voulus par le ministère.

16.2 Les renseignements sur les attentes des clients sont un élément essentiel à l'établissement de normes en matière de service. Le ministère fait appel à des comités consultatifs et à des groupes de sensibilisation pour déterminer comment il peut mieux répondre aux besoins des contribuables. Il faudrait ajouter d'autres sources de renseignements aux questionnaires qui servent à obtenir les opinions des contribuables. Le ministère n'utilise pas de la façon la plus efficace les plaintes des contribuables comme source de renseignements (paragraphes 16.20 à 16.33).

16.3 Le ministère, afin de vérifier divers aspects du rendement de ses préposés aux demandes de renseignements, a effectué des enquêtes au cours de la période de production des déclarations d'impôt sur le revenu des particuliers, en 1990 et en 1991. Une des constatations de ces enquêtes a été qu'il fallait en moyenne 3,8 tentatives pour communiquer par téléphone avec un agent, en 1990, et 3,2 tentatives en 1991. Les résultats obtenus ne correspondent pas aux normes du ministère, qui sont d'environ 1,4 tentative (16.36 à 16.55).

16.4 Un important pourcentage des adultes au Canada trouvent que les publications du ministère sont difficiles à comprendre. Le ministère commence à traiter ce problème. Il a créé une «équipe de lisibilité» qui est chargée de réviser les publications les plus importantes pour les rendre plus faciles à comprendre. En outre, certains membres du personnel ont reçu une formation sur la manière d'utiliser un langage simple lorsqu'ils rédigent des documents, de sorte que plusieurs des publications du ministère sont maintenant plus faciles à lire (16.78 à 16.89).

16.5 Le ministère n'a pas fait d'évaluation de ses services pour déterminer s'ils lui permettent d'atteindre ses objectifs d'une manière rentable ou s'il utilise ses ressources au maximum (16.98 à 16.100).

16.6 La Partie III du Budget des dépenses renferme des données quantitatives sur les services aux contribuables. Elle ne donne aucun renseignement sur les normes en matière de service et sur la qualité (16.101 à 16.106).

Le ministère des Travaux publics

Planification et location de logement de bureaux

17.1 Le ministère des Travaux publics (MTP) est chargé de fournir aux ministères et organismes fédéraux des locaux de bureaux et des services divers en immobilier. Le MTP loge environ 155 000 fonctionnaires dans des locaux dont la superficie totalise, au Canada, 4,8 millions de mètres carrés. Les locaux de bureaux loués représentent plus de 40 p. 100 de l'ensemble, dont les loyers se chiffrent à 379 millions de dollars par an (paragraphes 17.9 à 17.12).

17.2 Par suite de notre vérification intégrée du MTP en 1984 et d'autres études, le gouvernement a apporté de profondes modifications à la gestion des biens immobiliers. Il est à signaler, néanmoins, qu'au moment de la présente vérification, il reste à résoudre certaines questions de fond en ce qui concerne les locaux (17.13). Celles-ci comprennent :

- les rôles du MTP en matière de services et de contrôle (17.25 à 17.32);
- la question de savoir si les ministères devraient payer un loyer pour leurs locaux (17.33 à 17.38);
- la planification des locaux et les stratégies d'investissements à long terme (17.39 à 17.46).

17.3 Nous sommes d'avis que la solution à ces questions faciliterait les modifications qui s'imposent dans la planification et l'acquisition de locaux de bureaux loués.

17.4 Bien que le gouvernement ait déjà fait des démarches pour adopter, dans la planification et l'acquisition de locaux loués, une approche qui s'apparente davantage à celle du milieu des affaires, nous croyons qu'il y a toujours place pour de l'amélioration en ce qui concerne les éléments suivants :

- la définition des exigences des ministères locataires (17.52 à 17.61);
- les délais (17.62 à 17.68);
- le processus d'appel d'offres (17.69 à 17.75);
- la réponse aux besoins de locaux de petite dimension (17.76 à 17.78);
- les études de marché et les coûts de location (17.79 à 17.87).

17.5 Des initiatives telles que Fonction publique 2000 mettent l'accent sur l'offre d'un choix plus large et sur la réduction des contrôles poussés dans la prestation de services gouvernementaux. Le moment est donc opportun pour que le MTP se penche sur les problèmes persistants et systémiques que posent la planification et la location de locaux de bureaux (17.88 à 17.93).

Le ministère des Approvisionnements et Services

Gestion du service des marchés publics

18.1 À titre d'organisme chargé des marchés publics, le ministère des Approvisionnements et Services (MAS) achète pour le compte du gouvernement du Canada biens et services totalisant quelque huit milliards de dollars annuellement et participe à la gestion de grands projets de l'État qui se chiffrent à l'heure actuelle à 23 milliards. Tous les services d'achats du MAS sont actuellement fournis moyennant rétribution et doivent tenir compte des objectifs nationaux du gouvernement, notamment la concurrence, l'équité, l'accessibilité et le développement industriel et régional. La mission du ministère, tel qu'énoncée, consiste «à fournir à nos clients des services de premier ordre qui leur permettent d'atteindre leurs objectifs» (paragraphes 18.6 à 18.11).

18.2 L'administration fédérale a pour stratégie d'accorder la priorité à la concurrence, à l'équité et à l'accessibilité, piliers de la politique d'approvisionnement du gouvernement. Environ 60 p. 100 des quelque huit milliards de dollars de marchés de biens et de services conclus chaque année par l'entremise du MAS ont fait appel au jeu de la concurrence. La politique de l'administration fédérale stipule que les besoins des ministères clients doivent être clairement définis en des termes génériques et objectifs de façon à garantir que tous les fournisseurs qualifiés auront accès aux marchés et seront traités avec équité. De plus, le MAS est tenu de conseiller les ministères clients et de les inciter à modifier les demandes de marchés non concurrentiels afin de favoriser la concurrence lorsqu'il existe un autre produit ou un autre fournisseur. Le double rôle du ministère des Approvisionnements et Services, soit d'assurer un service rapide et satisfaisant aux ministères clients tout en veillant au respect des politiques d'approvisionnement du gouvernement, risque d'affecter la remise en question, par celui-ci, de la validité des demandes de ministères qui désirent passer des marchés non concurrentiels de biens et de services (18.15 à 18.49).

18.3 Lorsque le ministère ne réussit pas à fixer le prix d'un marché par appel d'offres, les principaux éléments qui servent à déterminer le prix, tels que les coûts et les profits des fournisseurs, doivent être estimés et négociés. Chaque année, la valeur des marchés non concurrentiels adjugés par le ministère s'élève à trois milliards de dollars. Il est donc important d'aider les agents d'approvisionnement du ministère à déterminer quand il y a lieu de procéder à une justification détaillée des prix, de l'ampleur de ce travail et de la quantité de documents nécessaires. Ils devraient en outre être pourvus des outils technologiques nécessaires et faire appel aux plus récentes méthodes pour pouvoir juger efficacement le bien-fondé des propositions de prix. Il y aurait lieu de réviser la politique

suite

actuelle sur la marge bénéficiaire pour s'assurer que le calcul du bénéfice est fonction du niveau de risque assumé par les fournisseurs. L'attestation de prix actuellement présentée par les fournisseurs à l'appui de leurs propositions de prix pour les marchés non concurrentiels de biens non-commerciaux devrait également comprendre une déclaration selon laquelle l'information sur les prix est exacte, à jour et complète au moment de l'adjudication du marché (18.50 à 18.77).

18.4 Dans l'ensemble, le ministère dispose de mécanismes qui lui permettent d'évaluer la capacité technique et financière des fournisseurs. Il n'existe toutefois aucun système ministériel pour consigner et communiquer l'information sur le rendement des fournisseurs et des produits (18.90 à 18.99).

18.5 Le MAS, l'un des plus importants acheteurs de biens et de services au Canada, traverse une période de changements importants. En même temps, la complexité et les caractéristiques techniques des produits achetés ne cessent d'évoluer. La formation et les compétences des agents d'approvisionnement constituent la clé de voûte de leur efficacité à fournir des services centralisés d'achat pour le compte de l'administration fédérale. Les programmes de formation du MAS devraient donc être complets et à jour afin de doter les agents d'approvisionnement des compétences dont ils ont besoin pour s'acquitter de leurs tâches (18.110 à 18.119).

Le ministère des Approvisionnements et Services

Les marchés publics et le développement industriel

19.1 Au fil des ans, le processus d'approvisionnement a servi à la réalisation des objectifs de développement industriel et régional et des objectifs connexes du gouvernement du Canada. Il s'agissait au départ d'une tentative modeste visant à donner la préférence aux fournisseurs canadiens mais, avec le temps, elle a fini par englober certaines considérations socio-économiques qu'on appelle maintenant les objectifs nationaux (paragraphes 19.7 à 19.11).

19.2 La politique du gouvernement définit ces objectifs nationaux en ce qui a trait au processus d'approvisionnement. Elle confirme la primauté des quatre piliers de ce processus, soit les besoins opérationnels, la concurrence, l'équité et l'accessibilité. Elle donne ensuite la priorité au développement industriel et régional à long terme, puis aux autres objectifs nationaux. En rattachant au processus d'approvisionnement certaines exigences en matière de développement industriel et régional, le gouvernement vise à créer au Canada une activité économique viable et à long terme en vue d'assurer la compétitivité internationale des biens et des services (19.7 à 19.11 et 19.14).

19.3 Le Canada n'est pas le seul pays à faire appel au processus d'approvisionnement pour réaliser ses objectifs de développement industriel et régional et ses objectifs connexes. Dans la mesure où les États étrangers visent des objectifs de développement industriel et régional dans le cadre de leur processus d'approvisionnement, le gouvernement du Canada peut juger nécessaire d'imposer un certain nombre d'exigences pour stimuler et protéger certains secteurs industriels dont les pouvoirs publics sont habituellement les principaux clients (19.21 à 19.23).

19.4 Un certain nombre d'examens effectués au sein de l'administration fédérale ont contribué à modifier les politiques et les pratiques. Les avantages qui découlent de certaines activités de développement industriel et régional et qui sont visés par des marchés publics ont fait l'objet de suivi et de rapports. Toutefois, on n'a pas encore évalué en bonne et due forme l'efficacité du processus d'approvisionnement pour atteindre les objectifs de développement industriel et régional à long terme (19.24 à 19.26).

suite

19.5 Avant d'adjuger aux fournisseurs des marchés non concurrentiels ou de lancer des appels d'offres restreints en vue de stimuler le développement industriel et régional, d'accorder un traitement préférentiel à des fournisseurs canadiens ou de réaliser des objectifs gouvernementaux connexes, le gouvernement devrait examiner plus à fond les facteurs suivants pour réduire les risques inhérents à leur exécution, comme les dépassements de coûts et les retards (19.27 à 19.69 et 19.81 à 19.107) :

- évaluer les capacités techniques, administratives et financières des fournisseurs choisis;
- offrir aux fournisseurs choisis l'aide technique requise, lorsque la dépense en est justifiée;
- s'assurer que les estimations des fournisseurs au sujet des coûts et du calendrier d'exécution soient réalistes, compte tenu de leur capacité;
- s'assurer, si possible, dans le cadre des projets d'approvisionnement, que les travaux de recherche et de développement du produit soient terminés de façon satisfaisante et aient fait l'objet d'essais concluants avant de passer aux travaux d'ingénierie et de production proprement dits;
- envisager l'opportunité de conclure des marchés à forfait pour les travaux qui comportent une part importante de recherche et de développement, lorsque les caractéristiques techniques ne sont pas définitives.

19.6 Afin d'accroître la confiance du public en ce qui a trait à l'équité et à l'accessibilité du processus d'approvisionnement de l'État, on devrait, le cas échéant, recourir davantage au processus d'appel d'offres, un des piliers de la politique d'approvisionnement de l'État (19.27 à 19.29).

Le Secrétariat d'État
Langues officielles et traduction
Le Bureau de la traduction

20.1 Depuis 1985, le Bureau de la traduction est grandement affecté par les mesures de réduction d'effectif et par l'obligation de recourir, dans une plus grande mesure, à la sous-traitance. Le pourcentage de sous-traitance devra atteindre 50 p. 100 en 1994. De 1986 à 1991, il passait de 20 p. 100 à 42,6 p. 100. Le Bureau de la traduction évolue dans un environnement changeant alors qu'il est à définir ses orientations et le type d'organisation qu'il veut devenir (paragraphes 20.15 à 20.37).

20.2 Nos calculs indiquent que les coûts directs de production de la traduction du Secrétariat d'État sont plus élevés que ceux du secteur privé. Ils correspondent à 27,3 cents alors qu'ils sont de 18,3 cents dans le secteur privé. Plusieurs facteurs peuvent expliquer cet écart, tels : la productivité, les salaires et avantages sociaux et la structure régionalisée du Secrétariat d'État (20.47 à 20.50).

20.3 Considérant que le Secrétariat d'État ne répartissait pas ses coûts indirects aux opérations de traduction, il ne pouvait pas les suivre de près pour mieux repérer les économies potentielles (20.52 à 20.54).

20.4 Dans notre Rapport de 1984, nous recommandions que des normes quantitatives de production soient établies pour suivre le rendement des traducteurs. Toutefois, la direction a plutôt préconisé l'utilisation d'objectifs quantitatifs et qualitatifs individuels. Bien que nous ayons noté une augmentation du rendement des traducteurs de niveau TR2, de 20 mots à l'heure depuis 1983, le rendement de 75 p. 100 d'entre eux se situait en deçà d'un niveau repère de 200 mots à l'heure. Nous estimons que si ce rendement avait été atteint, cela aurait engendré des économies annuelles de 1,9 million de dollars. De plus, les traducteurs ont très peu d'incitation à produire le meilleur rendement possible (20.65 à 20.73).

20.5 Le Bureau de la traduction n'est pas en mesure d'expliquer la baisse globale de la qualité de la traduction à laquelle il fait face depuis 1987. Par conséquent, il ne peut prendre les mesures correctives appropriées (20.83 à 20.92).

20.6 Après plus de cinq ans d'efforts et des frais d'opération annuels d'environ 2,5 millions de dollars, le ministère ne bénéficie toujours pas d'un système d'information de gestion qui lui fournirait, en temps opportun, l'information dont il a besoin pour gérer avec le souci de l'économie et de l'efficience (20.96 à 20.99 et 20.176 à 20.181).

suite

20.7 L'absence de stratégie appropriée de gestion des ressources humaines, dans un contexte de réduction d'effectif et d'accroissement du recours à la sous-traitance, a entraîné au sein du Bureau des pertes de compétences et des changements dans la tâche qui peuvent expliquer le niveau de productivité atteint et la baisse de qualité (20.105 à 20.116).

20.8 Notre consultation menée auprès des employés du Bureau de la traduction indique que le climat de travail qui y règne est médiocre. Bien que le personnel ait clairement identifié des effets négatifs du recours à la sous-traitance sur son travail, il en déplore davantage la gestion que le fait d'y recourir (20.122 à 20.127).

20.9 Compte tenu de l'absence d'analyse complète, la direction n'était pas en mesure de se prononcer sur les avantages ultimes de la sous-traitance (20.129 à 20.133).

20.10 Nous avons constaté que, depuis 1988-1989, la sous-traitance avait permis de réaliser des économies annuelles moyennes de 7,5 millions de dollars au niveau des coûts directs. Cependant, ce calcul ne tient pas compte des répercussions du recours à la sous-traitance sur les ressources humaines et sur la qualité de la traduction. Nous sommes d'avis qu'une meilleure gestion des opérations et des ressources humaines aurait réduit les répercussions négatives liées à la sous-traitance, ce qui aurait eu pour effet d'accroître de façon importante l'efficience du Bureau de la traduction (20.137 à 20.141).

20.11 Le processus d'accréditation des traducteurs manque de rigueur et l'application de sanctions aux entrepreneurs est inéquitable (20.151 à 20.154, 20.160 et 20.161).

20.12 L'information destinée au Parlement, dans la Partie III du Budget des dépenses, est incomplète (20.187 à 20.190).

L'organisation et les programmes du Bureau du vérificateur général

21.1 En vertu de l'article 11 de la *Loi sur le vérificateur général*, et à la demande du gouverneur en conseil, le Bureau a été autorisé par décrets du conseil à faire enquête auprès de dix organisations et à en faire rapport (paragraphes 21.11 et 21.12).

21.2 Le Bureau fournit une gamme de services destinés à répondre aux besoins des députés (21.14 à 21.22).

21.3 Le Bureau se penche sur les questions d'équité en matière d'emploi (21.26 à 21.29).

21.4 La Direction de l'évaluation des programmes et de la vérification interne relève directement du vérificateur général. Elle veille à ce que le Bureau fasse une utilisation optimale de ses ressources (21.32).

21.5 Le Bureau a réalisé des progrès dans ses travaux d'élaboration et de mise au point de ses méthodes. Ces travaux comprennent le nouveau *Manuel de vérification intégrée* (21.37 et 21.38).

21.6 L'investissement dans de nouvelles techniques a permis d'exercer de manière rentable le jugement professionnel dans la planification, le déroulement et les rapports des vérifications (21.47 à 21.52).

21.7 Le Bureau fait office de secrétariat de l'Initiative de développement de l'INTOSAI (IDI), un programme de formation parrainé par l'Organisation internationale des institutions supérieures de contrôle des finances publiques et il participe à un programme financé par l'Agence canadienne de développement international dans le cadre duquel des boursiers internationaux peuvent faire l'apprentissage de la vérification législative au Canada (21.56 à 21.60).

21.8 Le Bureau a terminé trois examens spéciaux auprès de sociétés d'État en 1990-1991 (21.61 à 21.64).

92-01671/

Report of the
Auditor General
# of Canada
to the House of Commons

1991

©Minister of Supply and Services Canada 1991
Cat. No. FA1-1991F
ISBN 0-662-19226-5
Copies françaises aussi disponibles

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my Report to the House of Commons for the fiscal year ended 31 March 1991, to be laid before the House in accordance with the provisions of section 7(3) of the Auditor General Act.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 3 December 1991

Table of Contents

Chapter **Page**

Introduction 9

1. Matters of Special Importance and Interest 15

Other Audit Observations

2. Audit Notes 35

3. Follow-up of Recommendations in Previous Reports 73

Special Studies

4. The Accountability Framework for Crown Corporations: Making it Work 105

5. Innovation within the Parliamentary Control Framework 125

Government-wide and Special Audits

6. Capital Projects - Department of Public Works, Quality in the Constructed Project 145

7. Vehicle Fleet Management 161

8. Debt Management and Employee Pensions 185

9. Financial Management and Control of Non-tax Revenue 207

Comprehensive Audits

10. Department of Agriculture - Farm Safety Net Programs 235

11. Department of the Environment - Conservation and Protection 261

12. Department of External Affairs - Membership Payments to International Organizations 283

13. Department of Fisheries and Oceans - Central and Arctic Operations 305

14. Department of Indian Affairs and Northern Development 325

15. Department of National Revenue - Customs and Excise - Customs Operations 349

A detailed table of contents precedes each chapter

Table of Contents (cont'd)

Chapter

Comprehensive Audits (cont'd)

Page

16. Department of National Revenue - Taxation - Taxpayer Services 375

17. Department of Public Works - Office Accommodation Planning and Leasing 399

18. Department of Supply and Services - Management of the Government Procurement Service 425

19. Department of Supply and Services - Government Procurement and Industrial Development 449

20. Department of the Secretary of State - Official Languages and Translation - Translation Bureau 477

****

21. Organization and Programs of the Office of the Auditor General 515

Appendices

A Auditor General Act A-1

B Financial Administration Act - Extracts from Part X B-1

C Reports of the Standing Committee on Public Accounts to the House of Commons C-1

D Report on the Audit of the President of the Treasury Board's Reports to Parliament on Tablings of Crown Corporations' Summaries and Annual Reports D-1

E External Advisors to the Office of the Auditor General E-1

A detailed table of contents precedes each chapter

Report of the Auditor General to the House of Commons for the Fiscal Year Ended 31 March 1991

Introduction

Report of the Auditor General to the House of Commons for the Fiscal Year Ended 31 March 1991

Introduction

The principal functions and responsibilities of the Auditor General of Canada are set out in the Auditor General Act. My responsibilities in respect to those Crown corporations for which I have been appointed auditor are set out in the Financial Administration Act. The Auditor General Act is included as Appendix A to this report and the relevant sections of the Financial Administration Act as Appendix B.

The financial statements of the Government of Canada for the fiscal year ended 31 March 1991, which have been prepared by the Receiver General for Canada in accordance with the provisions of section 64 of the Financial Administration Act and appear in Volume I of the Public Accounts of Canada, have been examined by me as required by section 6 of the Auditor General Act.

In compliance with section 7 of the Auditor General Act, my report for the fiscal year ended 31 March 1991 is presented herewith.

As auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund, I conducted such examinations and inquiries as I considered necessary to enable me to report as required by the Auditor General Act.

For audits in progress during the fiscal year ended March 31, 1991 departments, agencies, and the Privy Council Office provided my Office with the information and explanations required to date, including Cabinet documents.

One of the matters I reported in 1989 was that I had not received the information needed to complete my audit of expenses claimed by ministers for government travel and their use of the Administrative Flight Services -- the VIP Fleet. The status of this matter is discussed in Chapter 1.

Chapter 1

Matters of Special Importance and Interest

Table of Contents

Paragraph

Introduction 1.1

First Impressions of Ottawa 1.4
- Credibility is the Office's most valuable asset (1.4)
- A dedicated, competent public service (1.5)
- Widespread concern about the deficit (1.6)
- The need to focus on results (1.7)
- A troubling dichotomy (1.8)

Department of Indian Affairs and Northern Development – the Dilemma of Reconciling Accountability to Parliament with the Funding Arrangements for First Nations 1.11
- Increasing trend toward devolution (1.11)
- The need to resolve a long-standing dilemma (1.14)

The Need for Better Co-ordination between Governments with Overlapping Jurisdictions 1.18
- The complexity of operating in overlapping jurisdictions (1.18)
- Department of Agriculture (1.20)
- Department of Environment (1.23)
- Department of Fisheries and Oceans (1.27)
- Summary – the need to harmonize the efforts of departments and levels of government having overlapping jurisdictions (1.30)

Protection of the Environment – Are We Making Progress? 1.31

Providing More Useful Information about the Deficit 1.33
- Widespread concern about a vicious circle (1.35)
- The need for a "scorecard" (1.41)

The Need to Scrutinize Expenditures in the Context of Outcomes 1.45
- A brief history of program evaluation (1.45)
- Why is effective program evaluation so elusive? (1.51)

Reflections on Three Decades of Management Reform 1.52
- Past efforts at reform (1.53)
- PS 2000 in context (1.57)
- A window of opportunity (1.59)
- Lessons of history (1.61)

Continued Lack of Access to Information on Ministers' Travel 1.69

Making a Difference 1.84

Exhibit

1.1 Public Debt Charges as a Percent of Total Budgetary Revenues and Expenditures

Matters of Special Importance and Interest

Introduction

1.1 The tenure of every Auditor General is shaped to some extent by the bureaucratic, political, cultural and economic climate surrounding it. My appointment comes at a time when the country faces unique challenges. This year's Report reflects some of these national issues – the relationship between the government and First Nations, the need for better co-ordination between governments with overlapping jurisdictions, the protection of the environment, and the deficit. The Report can be viewed as a microcosm of the wide-ranging concerns of Canadians – from specific, local issues to those of interest nationwide. My intent in this chapter is to weave together some of the common threads in this Report, from my perspective as a relative newcomer to Ottawa, with a few "first" impressions.

1.2 My natural inclination – and my professional training – is to ask questions. This chapter will focus less on solutions to the problems raised in the Report than on the questions those problems lead me to ask.

1.3 There are two overriding messages in this chapter. The first is that means must be found to more effectively manage programs that involve different levels of government. The second is that managers and departments need to better account for results, for what they have – or have not – achieved with taxpayers' money. Such an accounting, with its emphasis on results, would help Parliament consider past performance in the allocation of scarce resources.

First Impressions of Ottawa

Credibility is the Office's most valuable asset

1.4 My first impression on assuming my new role was that the Office of the Auditor General enjoys real credibility, both in Ottawa and with the taxpayers across the country. It is perhaps the Office's most valuable asset, and I intend to channel it along constructive avenues. The stature and credibility of the Office reflect the vision, innovative thinking and energy of my predecessors. James J. Macdonell translated his vision of comprehensive auditing into a new Auditor General's Act. He reaffirmed the role of the Office as an independent legislative auditor and established the basis for the development of new audit methodologies. Kenneth M. Dye continued with the development of comprehensive auditing. Under his tenure the Office's credibility and recognition by the Canadian taxpayers became well established. His term was characterized by many accomplishments in the international sphere, in the accounting profession, in the government, and within the Office. One measure of his accomplishments is the creativity, professionalism and dedication of the staff I found in the Office.

A dedicated, competent public service

1.5 Another early impression was that a dedicated, competent public service is dealing with complex problems that have developed over the years, with both the complexity and its consequences compounding over time. The $29 billion annual deficit is not a result of bureaucrats simply burning the taxpayers' money; it cannot be attributed to a single cause. An analysis of the financial statements of the Government of Canada in the Public Accounts suggests to me that the reasons for the deficit are profound, complex and difficult to solve. I sense there are few easy fixes, panaceas, or substitutes for some degree of sustained sacrifice. Immense challenges lie ahead. Clearly, there is no room for a false sense of security. Yet we must believe there can be alternatives. Cynicism or a pessimistic belief that government cannot address these problems could become self-fulfilling. The times call for re-establishing our faith in our ability to improve things, for optimism, shaped by a feeling for history and tempered by a sense of what is achievable.

Widespread concern about the deficit

1.6 There is serious and widespread concern about the annual deficit and the accumulated debt. People are worried about the deficit's potential impact on their standard of living and that of future generations. Senior public servants seem frustrated by a fundamental problem: how to reconcile the increasing cost of the services that taxpayers and successive governments demand with the limits on the financial resources at their disposal.

The times call for re-establishing our faith in our ability to improve things, for optimism, shaped by a feeling for history and tempered by a sense of what is achievable.

The need to focus on results

1.7 Another impression has to do with the administration of public affairs, the need to focus on results instead of on process. There are cumbersome internal rules in government, an emphasis on procedures, a complex budgeting process, and so on. To a newcomer it seems evident that successive governments, concerned about probity and prudence, economy and efficiency, have placed pervasive, systemic reliance on central controls. Why? One explanation is that it is hard to manage by results when few meaningful ways to measure them have been put into use. Reporting of results – outputs (efficiency) and the outcomes (effectiveness) of program activities – would appear to be a precondition for moving from a regime of central control. This is especially true in Ottawa. For nowhere in Canada is there so much talk about accountability which nevertheless still remains such an elusive goal.

For nowhere in Canada is there so much talk about accountability which nevertheless still remains such an elusive goal.

A troubling dichotomy

1.8 Then there is the impression of a troubling dichotomy: an emphasis on improved administrative processes on the one hand, and the financial condition of the country on the other. There have been major initiatives in public administration in the last fifteen years: the emergence of value-for-money auditing, the creation of the Office of the Comptroller General, Part III of the Estimates, the emphasis on internal audit, the advent of program evaluation, the many acronyms – PPBS, MBO, PEMS, the three E's of economy, efficiency and effectiveness – and now, IMAA and Public Service 2000. A great many of these had their origins in the government itself.

1.9 Yet, despite these many initiatives, Canada's finances are not in any better shape. Changes in process have not solved the fundamental problem of balancing expenditures with revenues. The Auditor General in 1976, James J. Macdonell, was "deeply concerned that Parliament – and indeed the government" – had lost, or was "close to losing, effective control of the public purse". The Public Accounts for the year ended 31 March 1976 showed an annual budgetary deficit of $4 billion; the accumulated deficit, represented by the excess of liabilities over net recorded assets, was $23 billion. Fourteen years later, despite all the intervening initiatives, the annual deficit has increased to $29 billion and the accumulated deficit to $358 billion. How does a taxpayer observing Ottawa reconcile the growing deficit with the previous prescriptions for better public administration? Has there been too much emphasis on process and not enough on results?

Changes in process have not solved the fundamental problem of balancing expenditures with revenues.

1.10 I came to Ottawa with the realization that there are some fundamental issues facing the government – and a number of related questions: about the history of administrative reform and the causes of the deficit; about the relationship between the government and First Nations; about the roles of different levels of government in areas involving overlapping jurisdictions; about the protection of the environment. This, my first Report, touches to some degree on all these issues. This chapter provides an overview of my Office's findings and observations on them.

Department of Indian Affairs and Northern Development - the Dilemma of Reconciling Accountability to Parliament with Funding Arrangements for First Nations

Increasing trend toward devolution

1.11 During 1990-91, various government departments spent an estimated $4 billion on basic services to First Nations. A large portion of the $2.6 billion voted by Parliament to the Department of Indian Affairs and Northern Development goes to Indian bands, with grants and contributions the main vehicles for funding. There has been an increasing trend toward the transfer, or devolution, of program administration to bands for self-administration. For 1989-90, the Department transferred $1.9 billion, or 72 percent of total program expenditures, to Indian bands or tribal councils for self-administration of health care, education, housing and other essential services. However, the Department has not been able to provide information to Parliament on how well the money was used. In the past, this Office and the Standing Committee on Public Accounts have expressed concern about the issue of the Department's accountability to Parliament for the use of these funds.

1.12 As early as 1965 the government began using bands to carry out program activities. By 1975, 400 bands were managing $100 million. In 1980 this Office reported that the planning and implementation of additional transfers of responsibility for program delivery had not been well thought out.

1.13 In 1981 the Public Accounts Committee noted that expenditures by Indian bands were not subject to appropriate accountability processes. The Committee observed that the First Nations had voiced concerns about the inflexible conditions they were required to meet under existing contribution agreements. The Department stated that it had responded by initiating negotiations with central agencies to develop an accountability process that would be acceptable to both the First Nations and the government.

The need to resolve a long-standing dilemma

1.14 In 1986 this Office reported that the Department's mandate was not clear; specifically, the Department was not sure whether it was still accountable for ensuring social and economic gains to native people, or was now responsible simply for ensuring an equitable distribution of financial support as native groups pursued their own objectives. The Office noted that there was a great difference between these two orientations, with different measures of accountability for each. In 1988, the Office observed that it had been reporting for over 20 years on the Department's inability to assure Parliament that funds provided to bands, through contribution agreements and other funding arrangements, were used for their intended purposes.

1.15 Case studies in this year's Report illustrate a partnership between the Department and some bands that works. The accountability framework that seems to serve the band can also serve funding agencies. The leaders of these bands feel accountable in both directions – to funding agencies and to band members – and they report their results to both constituencies.

1.16 An important question is what type of accountability is appropriate for funding arrangements, when more than 70 percent of the Department's funds are devolved to Indian bands or tribal councils for self-administration? Who is ultimately responsible, in an environment of devolution, for meeting the needs of the First Nations in health, education and housing?

The resolution of the long-standing dilemma of reconciling the Department's accountability to Parliament with the funding arrangements for First Nations is overdue.

1.17 Whatever the fiscal and funding arrangements in the future, an appropriate accountability framework will be needed. The resolution of the long-standing dilemma of reconciling the Department's accountability to Parliament with the funding arrangements for First Nations is overdue.

The Need for Better Co-ordination between Governments with Overlapping Jurisdictions

The complexity of operating in overlapping jurisdictions

1.18 Another issue in this year's Report is the complexity of managing federal programs that operate in an environment characterized by overlapping jurisdictions. Many government activities involve more than one department of the federal government as well as provincial and municipal governments, and sometimes other countries. Past audits have noted the difficulty of co-ordinating action among levels of government – for example, the enforcement of environmental legislation – due in part to the federal and provincial jurisdictional complexities inherent in Canada's constitutional framework.

1.19 This year, three chapters provide insight into these complexities and the distinct approaches adopted by governments and departments operating in overlapping jurisdictions. Each demonstrates a different approach to finding workable administrative solutions.

Department of Agriculture

1.20 The federal and provincial governments are all involved in economic support to agriculture. From the mid-1950s to the early 1970s the federal government was the primary player. As provincial involvement grew in the late 1970s and early 80s, there were cases of duplication and overlapping of federal and provincial agricultural programs. There was also a risk of programs working at cross-purposes.

1.21 During the mid-1980s the parties concerned with agricultural programs – the federal and provincial governments and the producers – agreed to principles that would reduce the potential problems resulting from jurisdictional complexities – principles for the management and cost sharing of certain significant agricultural programs. These broad principles became an important basis for the National Tripartite Stabilization Program.

1.22 In reviewing how that program was developed and implemented, this Office came to two general conclusions about the process followed in this case for trying to achieve program effectiveness in overlapping jurisdictions. First, there was a need for consultation, negotiation and co-operation, and for a genuine desire to achieve mutual understanding and agreement. Second, there was a need to follow up with clear, practical and workable agreements that would provide a basis for clarifying responsibilities and for mutual co-operation, rather than a potential for conflict. Such agreements would provide a mutually agreed-upon framework for the sharing of information, for the division of program responsibilities, for resolving disputes and for reporting results against specified goals or objectives. Agreements are an important element in the complex process of transforming political debate into practical plans of action directly affecting people. Clearly, they are not panaceas, but provide additional assurance that there will not be duplication and that things will not fall through the cracks.

Department of the Environment

1.23 The chapter on the Department of the Environment illustrates the intended use of agreements and other vehicles for co-ordinating the achievement of objectives and goals that involve different levels of government. Such vehicles include the Canadian Council of Ministers of the Environment, and administrative and equivalency agreements provided for under the Canadian Environmental Protection Act.

1.24 The 1990 chapter on the Department of the Environment noted that, in the federal government alone, some 24 departments have responsibilities relating to more than 50 Acts with environmental implications. The chapter also noted the provision for administrative and equivalency agreements under the Canadian Environmental Protection Act.

1.25 These agreements, concerning the management and control of toxic substances, were to be between the federal and provincial governments. They would provide that federal regulations under the Act ceased to apply in a province or territory that had its own equivalent or stronger regulations and enforcement regimes. As of June 1991, three years after the proclamation of the Act, no equivalency agreements were yet in place. However, progress has been made in drafting administrative agreements and work is proceeding on developing the criteria for equivalency.

1.26 I do not wish to imply that these agreements are the only mechanism for ensuring clear responsibility for the management and control of toxic substances. However, I believe they are a very important vehicle for dealing with two matters of concern to taxpayers: the risk of duplication of effort and the risk of incomplete or inconsistent protection of the environment.

Department of Fisheries and Oceans

1.27 The chapter on the Department of Fisheries and Oceans also illustrates the difficulties in reaching a consensus among different levels of government on broad principles, and translating these principles into agreements that promote co-operative and effective action.

1.28 In the 1986 Report, the Office commented on the delegation of administrative responsibility for freshwater fisheries under the Fisheries Act. The Report noted that delegation by the Department of Fisheries and Oceans to Ontario and the Prairie provinces had caused considerable confusion over respective roles in fish habitat and fishery management. The administration of the Fisheries Act is further complicated by the fact that administrative responsibility for its water pollution provisions is shared with the Department of the Environment.

1.29 This year's chapter on the Central and Arctic Region of the Department of Fisheries and Oceans reports that the question of the extent and nature of responsibilities to be delegated to the Central provinces still remains largely unsettled, awaiting the clarification of fish habitat and related environmental responsibilities. With this ambiguous division of responsibilities, the Department risks being unsure of the extent to which the fisheries and habitat management activities are being carried out in the provinces. Progress has been slow in implementing the Department's Policy for the Management of Fish Habitat. In the meantime the provinces in the Central Region have been carrying out habitat management responsibilities based on informal agreements and without monitoring by the Department.

Summary - the need to harmonize the efforts of departments and levels of government having overlapping jurisdictions

1.30 Overlapping jurisdictions are a fact of life. Co-operation and co-ordination among government departments and agencies, and among different levels of government, appear to be prerequisites for addressing the issues surrounding agriculture, the environment and fish habitat management. There is a need for a clear understanding about respective responsibilities, both within the federal government and between the federal and provincial governments, in order to effectively hold to account those operating in areas where jurisdictions overlap. In this regard I am encouraged by announcements that the Standing Committee on the Environment will be taking a look at the roles and responsibilities of the different levels of government involved with the protection of the environment. I am also encouraged by the Statement on Interjurisdictional Co-operation on Environmental Matters issued by the Canadian Council of Ministers of the Environment. This is an issue that the Office considers important and will continue to address in future audits.

Overlapping jurisdictions are a fact of life.

Protection of the Environment - Are We Making Progress?

1.31 There can be serious weaknesses in the way federal departments account to Parliament for the results of their efforts to protect the environment. For example, the Department of the Environment does not have adequate information on the extent of compliance with the water pollution provisions of the Fisheries Act that have been undertaken by the provinces. Thus the Department is not in a position to provide Parliament with the appropriate information on the levels of compliance with the regulations it is responsible for administering.

1.32 This year's chapter on the Department of the Environment indicates that the 1988 Report to the International Joint Commission failed to show what progress has been made toward eliminating toxic substances from the Great Lakes. This report did not indicate when fish from the Great Lakes could be eaten without concern for health.

Providing More Useful Information about the Deficit

1.33 The many significant and interrelated issues affecting Canadians include - along with environmental protection and sustainable development - the country's debt and financial condition.

1.34 One of my responsibilities is a requirement to provide the Parliament of Canada with an audit of the federal government's financial statements. This involves making an assessment as to whether these statements reliably inform readers about the government's financial condition. Decisions about the deficit, its size, and the necessity for it are political matters; my interest is in the adequacy of information about the deficit. Among the statements I audit is the Statement of Revenue and Expenditure. The annual deficit for 1989-90 was $29 billion and the annual deficit for 1990-91 is expected to be near the same level. Another is the Statement of Assets and Liabilities, which showed the accumulated deficit to be $358 billion as at 31 March 1990.

Widespread concern about a vicious circle

1.35 The interaction between accumulated debt and annual deficits is pernicious. Canada's persistent annual deficits have led to a high accumulated debt and meeting the interest costs on the debt contributes to high annual deficits.

1.36 There is widespread public concern about the effects of this vicious circle. In his last budget, the Minister of Finance stated that we have been living beyond our means, with the end product a growing burden of debt. He also told the House of Commons that, in 1991-92, the accumulated debt will be equal to about $15,000 "for every man, woman and child", with the interest alone consuming $43 billion, or 27 percent of planned expenditures. He warned that "if we did nothing to deal with this worsening fiscal situation, the deficit would be significantly higher than forecast over the next five years."

1.37 Exhibit 1.1 illustrates debt servicing costs as a percentage of total budgetary revenues and expenditures over the past ten years. It illustrates that today approximately one third of every dollar collected in taxes goes to public debt charges. Ten years ago it was 22 percent. Today 27 percent of total budgetary expenditures is spent on debt charges; ten years ago it was 17 percent. What is obvious is that if deficits remain at current levels, this crowding out will continue and a greater portion of taxes will be consumed by debt servicing, with less available for services to taxpayers.

What is obvious is that if deficits remain at current levels, this crowding out will continue and a greater portion of taxes will be consumed by debt servicing, with less available for services to taxpayers.

1.38 Each year at budget time, the government announces a fiscal course of action that it plans to follow to deal with the deficit. This course of action is based on a set of economic assumptions and on forecasts for financial variables that directly affect the level of the annual deficit. With this year's budget, the Minister of Finance made a number of financial forecasts: he announced that he expected short-term (90-day) interest rates to fall, from 13 percent in 1990 to 9.5 percent in 1991 and 9.0 percent in 1992; that inflation would moderate from 4.9 percent in 1990 to 4.8 and 3.0 percent in 1991 and 1992 respectively; that these interest rates and inflation would average out at 7 percent and 2.2 percent over the 1993-96 period; and that the deficit would fall to $6.5 billion by 1995-96.

1.39 Making such forecasts is not an easy task, as there are many variables in play at the same time – interest rates, domestic economic activity, political events, the value of the Canadian dollar, the global economy, public sector responsibilities. Some are controllable by the government, while others are not. Often, as the year progresses, it becomes obvious that the original plans cannot be fully realized. Yet they still have an impact on the deficit and accumulated debt. That is, they affect the level of revenues received through taxation, and they influence the amount of expenditures that the government either chooses to make through annual appropriations or is required to make by law, such as transfer payments to the provinces.

1.40 Other budgets too have included the government's expectations about inflation, interest rates, and other variables that affect the deficit. They have also included forecasts of expected revenues from taxation and of anticipated expenditures. Yet where in this information is a comparison between budget forecasts and actual results, in one concise presentation?

The need for a "scorecard"

1.41 It would seem reasonable that Canadians be told by their government how it has performed relative to its action plan. Did it succeed or did it miss the targets? And why? Did things happen that it did not foresee? How accurately did it anticipate revenues for the year? How did it predict expenditures? How well did it assess interest rates and inflation for the year? A basis for comparing the government's deficit reduction plan to its actual results would help all Canadians understand the enormity of its task. In other words, it may be time to consider the need for a kind of "scorecard" where actual results are compared with budget forecasts, and significant variances

Exhibit 1.1

PUBLIC DEBT CHARGES AS A PERCENT OF TOTAL BUDGETARY REVENUES AND EXPENDITURES 1980-81 TO 1989-90

(in billions of dollars)

	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88	88-89	89-90
Public Debt Charges	10.7	15.1	16.9	18.1	22.5	25.4	26.7	29.0	33.2	38.8
Total Budgetary Revenues	48.9	60.3	60.7	64.2	71.1	76.9	85.9	97.6	104.1	113.7
Total Budgetary Expenditures	63.2	75.8	89.4	96.9	109.6	111.5	116.7	125.8	133.0	142.7
Debt Charges as % of Revenues	21.8	25.0	27.9	28.2	31.6	33.1	31.0	29.7	31.9	34.1
Debt Charges as % of Expenditures	16.9	20.0	19.0	18.7	20.5	22.8	22.9	23.0	24.9	27.2

Source: Public Accounts of Canada, 1990, Vol 1, Tables 1.6 and 1.7

explained, in a concise and readable form. This is common practice in the business world, and I am puzzled why it isn't used by government.

1.42 The idea of a "scorecard" is not new. The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants has recommended for some time that governments prepare and publish a budget-to-actual comparison. The Committee had in mind such a comparison for items in the financial statements. I feel that the government should go even further and include comparisons for the economic information behind the financial forecasts, such as inflation, interest rates, unemployment, etc., as part of a deficit/debt "scorecard".

1.43 Accountability of government to Parliament is multi-faceted. As a minimum, it means complying with parliamentary authorities and reporting on that compliance. It also means describing the major activities and issues the government is dealing with and indicating the prospects for their resolution. And, finally, it means reporting on the degree of success the government has had relative to those prospects.

> *It makes sense to me that the onus should now be on the government to report not only on its prospects for reducing the deficit, but also on the extent to which they have been realized.*

1.44 The government has made deficit reduction a major issue and wants Canadians to accept the sacrifices associated with it. It makes sense to me that the onus should now be on the government to report not only on its prospects for reducing the deficit, but also on the extent to which they have been realized. A "scorecard" could be one means of communicating that information, of closing the loop.

The Need to Scrutinize Expenditures in the Context of Outcomes

A brief history of program evaluation

1.45 Departments and managers are given funds to administer programs. An obvious question is "Did the expenditure achieve the desired result?" Program evaluation has been identified by the government as one key way to address that question. According to the government, program evaluation could, and should, provide managers with information on program performance in order to reconfirm, improve or discontinue programs. Analyzing past outcomes can help in designing new programs.

1.46 Rather than focussing on the nature of expenditures, the Royal Commission on Government Organization (Glassco Commission) in the early 1960s recognized the need to focus on the purpose of expenditures. A number of important reforms were proposed, such as changing the form of the estimates to disclose the costs of individual programs within a department. This would allow Parliament, in holding government accountable, to better focus its attention on programs rather than on detailed expenditures. Pioneering steps were taken by the Treasury Board Planning Branch in the early 1970s, with pilot evaluations of effectiveness and efficiency. In 1977 the government made deputy ministers responsible for evaluating their programs on a cyclical basis. All of this was reinforced by the Royal Commission on Financial Management and Accountability (the Lambert Commission) in 1979. Lambert proposed that program effectiveness evaluations be performed by departments. In 1981 the government issued its guide on the program evaluation function, which set out in some detail its expectations for departments in conducting program evaluations.

1.47 In 1983 the Office reported that most major departments and many agencies had the basic infrastructure in place for program evaluation. At that time we raised concerns about significant weaknesses in the methods used for evaluations. In 1987 the Office reported that program evaluation had not covered most of the activities of departments. The Nielsen Task Force also expressed concerns about the adequacy and availability of information from program evaluations. In 1991 the Standing Senate Committee on National Finance observed that more systematic use of program evaluation findings could provide it with a powerful approach to its reviews of the Estimates and, in particular, could enable it to make concrete proposals for improving government programs.

1.48 This year's chapter on the Department of Agriculture illustrates the risks of embarking on new programs without the benefit of having formally measured and evaluated past results. The chapter reports that the absence of timely program evaluations limited the Department's ability to provide information on program effectiveness – through either program evaluation studies or ongoing performance measurement – to program managers, program stakeholders and Parliament at a time when critical program decisions were being made. The chapter also illustrates the importance of defining program objectives, a starting point for useful evaluations.

1.49 In the last six years departmental management has invested a tremendous amount of energy working in a difficult policy environment. During that period, the federal agricultural policy agenda included reducing interprovincial barriers, encouraging a greater sense of shared fiscal responsibility among farmers, provinces and the federal government, and enhancing co-operation and co-ordination in this area of shared jurisdiction. In 1986 the Office pointed out the need for ongoing effectiveness measurement, and the Department agreed. It also made some effort to develop performance indicators, but has not since gathered, analyzed or reported results in relation to these indicators. There are major risks associated with introducing new programs without first formally measuring and analyzing the outcomes of existing programs – evaluating what worked and, perhaps more important, what did not.

1.50 Other chapters note the need for evaluation. Chapter 8 on Debt Management and Employee Pensions points out the need for the evaluation of existing arrangements for financing employee pensions. At the end of 1989-90, $71 billion, or about 18 percent of the gross public debt, was owed to federal government employees pension accounts because, over the years, successive federal governments have borrowed from these accounts to help finance annual budgetary deficits. Obviously, the financial, economic and political implications of any change in the way employee pensions are to be financed need to be carefully considered. Chapter 19 on the Department of Supply and Services notes that there has not been an evaluation of the effectiveness of using the procurement process as an instrument to achieve long-term industrial and regional development objectives.

Why is effective program evaluation so elusive?

1.51 There seems to be general agreement that it is fundamental to accountability. Moving beyond the general consensus on the concept, what are the practical impediments to achieving accountability through program evaluation? The following section of this chapter notes that these questions are germane to any efforts at management reform. In the coming years, the Office will be conducting a government-wide audit of program evaluation.

What are the practical impediments to achieving accountability through program evaluation?

Reflections on Three Decades of Management Reform

1.52 Since my appointment as Auditor General, I have been asked about my views on Public Service 2000, the government's current initiative for the renewal of the federal public service.

Past efforts at reform

1.53 It is obvious to a newcomer that considerable attention has been paid over the past three decades to achieving greater effectiveness, efficiency and economy in the administration of public affairs. There has been a host of inquiries, ranging from royal commissions to task forces to internal studies, most notably the Glassco and Lambert Commissions. There have been a number of efforts at management reform such as the Planning, Programming and Budgeting System, Increased Ministerial Authority and Accountability and, most recently, Public Service 2000. A common thread in these is the objective of administering public affairs efficiently and economically, with probity and prudence. There is also a belief that public service managers must be enabled to realize this goal and then held to account for doing so.

1.54 In the early 1960s the Glassco Commission focussed attention on the need, given the rapidly growing and changing nature of government operations, to dismantle the centralized and restrictive form of financial control then in place. It advocated financial management practices that would give program administrators more flexibility to respond appropriately to changing conditions. This was to be accomplished largely by transferring most financial responsibility to departments. Glassco generated a theme that was to recur in subsequent reform movements: "Let the managers manage", within an overall framework of guidance and accountability. Glassco did not forget the importance of a framework of control. But instead of detailed centralized controls, performance evaluation was to be the major vehicle for accountability.

1.55 The Lambert Commission, in the late 1970s, reinforced and elaborated on Glassco's recommendations for a framework of control and accountability, to accompany the proposed increase in the powers of departments. If Glassco could be characterized by "Let the managers manage", the phrase identified with Lambert's report would be "Make the managers manage".

1.56 During the 1980s, other initiatives re-examined the question of relaxing central controls to give more flexibility and autonomy to departments. But by the end of the decade there was a feeling among public servants that the detailed expenditure and administrative controls continued to be overly burdensome, frustrating the prospects at all levels for greater delegation and decentralization as well as for flexibility and innovation.

PS 2000 in context

1.57 At the end of 1989 the government announced Public Service 2000 (PS 2000), "the policy of the government concerning the measures necessary to safeguard and promote the efficiency and professionalism of the Public Service in order that it may serve Canadians effectively into the 21st century". PS 2000 proposes creating a public service that would be more client-focussed and results-oriented, with more emphasis on the importance of people. It proposes a new management approach, a focus on results rather than process, flexibility rather than conformity, judgment rather than rules, innovation rather than risk aversion, and accountability rather than heavy central regulation.

1.58 Like earlier reforms, PS 2000 – through the White Paper – proposes giving increased authority to operating departments, and makes some specific suggestions as to which central controls might be removed. To provide flexibility in financial management it proposes vehicles such as the retention of non-tax revenue for encouraging organizations to generate additional revenue, through such means as user fees. Recent legislative amendments will allow departments to retain and spend all or a portion of these revenues, subject to certain conditions. Increased delegation is under way in other areas such as procurement contracting on a competitive basis for services and employee incentive awards. Commensurate with increased responsibilities for departments, there would have to be increased accountability. This year's chapter on the financial management and control of non-tax revenue concluded that the effective use of incentives, better disclosure to Parliament and improved financial control are needed, particularly in view of changes taking place in authorities and policy.

A window of opportunity

1.59 The reform and renewal of the federal public service in a time of global competitiveness, a time of change, is essential to enable it to meet the challenges that lie ahead. The White Paper stresses that such a renewal "will not be achieved simply through legislative and administrative action to set in place new mandates, structures and processes. It requires fundamental changes in attitudes by Public Servants, by Ministers, by Parliamentarians and ultimately by the public." In accordance with its mission statement – to encourage accountability and bring about improvements in government operations – the Office supports the objectives and principles of PS 2000. They are generally consistent with good management practices. And PS 2000 has the potential to address specific human resource management issues and others that the Office has identified in audits since 1979.

PS 2000 and its initial broad objectives and philosophy must succeed. However...there are lessons from past reform efforts that provide useful insights.

1.60 PS 2000 and its initial broad objectives and philosophy must succeed. However, as implementation takes place, I believe there are lessons from past reform efforts that provide useful insights.

Lessons of history

1.61 An area of difficulty for past efforts at management reform appears to have been the absence of concrete proposals for moving from "here" to "there", for managing the process of change. One of the challenges for PS 2000 is to manage this process of change, to make the transition from where the public service is to the ideals proposed.

1.62 Another challenge will be to address the question of why it has been necessary to revisit some of the same questions over and over again. Have the practices of decades become too deeply ingrained? What are the obstacles to greater delegation of powers? Is there some deep-rooted institutional resistance in the government, the public service, the parliamentary system or its political environment?

1.63 Then there is the challenge of developing performance measures. A review of three decades of successive reports and internal reforms shows that almost all have emphasized the need for performance measures as an instrument of accountability. More recently, PS 2000 also talked of measuring individual management proficiency.

1.64 As noted previously in this chapter, the Office has been consistently concerned about the lack of information on effectiveness and efficiency, where it would normally be expected. In a special study on efficiency in government in 1990, the Office noted that any formal assessment of due regard to efficiency must rely on information about cost and performance. Yet, with the exception of a few instances, the quality of information had not improved since 1987, when the Office reported that the quality of information was poor.

1.65 Each successive study, or reform movement, seems to implicitly recognize that adequate performance measures have not been used, despite their central importance to improved accountability and a more effective public service. Again, we have to ask why. Are the technical difficulties in developing such measures insurmountable, given the characteristics of many government programs? What is the inherent difficulty in using the information, both within government and between government and Parliament?

1.66 How are these difficulties taken into account by PS 2000? What controls are still essential? Controls are often process-oriented, focussing largely on resource requirements and utilization, while accountability is more closely related to results. The White Paper on PS 2000 raises concern about excessive, detailed controls, but does not provide enough indication of the controls for government that are both essential and cost-effective. I believe that such controls are important to good public administration, but much needs to be done to achieve the right balance.

1.67 Another challenge is that of encouraging innovation within the parliam[illegible] control framework. Chapter 5 describes initiatives by managers in the Department of Fisheries and Oceans to improve the delivery of services at a lower cost to taxpayers. The chapter illustrates the dilemma of reconciling an innovative approach with the requirements of parliamentary control over the appropriation of expenditures and the re-use of revenues. Program innovations by the Department, such as the use of barter as a means of financing, do not fit easily within existing parliamentary conventions.

1.68 In the coming years the Office will continue to seek improvements and will be watching the progress of PS 2000 with interest. In the course of our audits we will observe aspects of its implementation. The approach of the Office will be to raise questions during the reform process that need to be addressed to ensure that the objectives of PS 2000 are met. The intent will be to stimulate the debate and discussion essential to ensuring that this initiative does not become just another acronym.

Continued Lack of Access to Information on Ministers' Travel

1.69 In 1989-90, the Office of the Auditor General planned to conduct an audit of expenses claimed for travel on official government business by ministers, and accompanying exempt staff and public servants. All the expenses that were to be audited were paid out of departmental budgets. The audit was to include examinations of the adequacy of financial controls and of the government's reporting on costs of ministerial travel, including the use of the Administrative Flight Services (VIP Fleet) by ministers and staff.

1.70 In April 1989, the Office requested access to receipts and other documentation supporting ministers' travel expense claims and the specific purposes for the use of the VIP Fleet. In June 1989 the government informed the Office that the needed information would not be made available. As a result, my predecessor decided not to proceed with the audit. Instead, as required by the Auditor General Act, the Office reported this denial of information to the House of Commons in the 1989 annual Report.

1.71 The Standing Committee on Public Accounts considered this matter and made its recommendations in its Eighth Report to the House of Commons, December 1990. Among those recommendations was that "the Government consider allowing the Auditor General access to ministerial travel receipts to the extent that he can discharge his statutory duties by means of an authority and attest audit of the Accounts of Canada under the Auditor General Act." In March 1991 the President of Treasury Board replied that the government was unable to accept this and the other recommendations of the Committee.

1.72 There are two aspects of the government's response that cause me particular concern. The first is the government's denial of access to information to my Office. As previous Auditors General have stated, the government's denial of information that my Office requires for audit purposes is inconsistent with the role of this Office in a parliamentary democracy. Without access to information, the role of my Office would be severely circumscribed, and its ability to assist Parliament to control the public purse would be diminished.

1.73 In the present case, the government is denying my Office access to two types of information: receipts for travel expenses incurred for official government business and paid for out of departmental appropriations; and information on the specific purposes for which ministers used airplanes provided by the Administrative Flight Services section of the Department of National Defence. I find it difficult to understand why there is an impasse over access to receipts for expenses and details on the reasons for use of government airplanes.

1.74 The Public Accounts Committee has asked the Office to conduct an audit of the Administrative Flight Services. In the absence of details on the purpose for which ministers use the planes, an audit would not be able to verify that aircraft were being used for official business and under the conditions stipulated in the Treasury Board's Guidelines for Ministers' Offices.

1.75 My second concern relates to the government's explanation for why it is unable to accept the Committee's recommendation that my Office be provided with access to this information.

1.76 The government stated that it was rejecting the recommendation because "ministers of the Crown are accountable directly to the Members of the House of Commons and to the Canadian public"; and that "requiring ministers to submit receipts to support travel expenditures and their subsequent audit by officials of the Auditor General would not be consistent with this principle." The government also pointed out that the subsequent availability of more information on ministerial travel, to Parliament and the public, would enhance the direct accountability of ministers in "a manner consistent with the underlying principles that have long been part of the Canadian parliamentary system."

1.77 I believe that the government's argument reflects a misunderstanding of the role of my Office in the Canadian parliamentary system. Audit does not, as the government implies, constitute some form of accountability to auditors or interference with the direct accountability of ministers to the House of Commons.

1.78 Ministers of the Crown are and should be directly accountable to the House of Commons for their actions. Audit is a process that strengthens this accountability relationship by providing an independent report to the House of Commons on how the moneys voted to ministers have been used. This process increases the ability of the House of Commons to hold ministers directly accountable.

1.79 I welcome the government's decision to increase the amount of publicly available information on travel expenses and on ministers' use of government airplanes. However, I do not agree that the provision of such information eliminates the need for any kind of audit.

1.80 While the increased disclosure of information by government is always desirable, its usefulness is markedly reduced without audit. By analogy, few persons, if any, in the private sector would suggest that the provision of unaudited financial statements by management to shareholders of publicly held companies would be sufficient simply because they could ask questions at the annual shareholders' meeting.

1.81 What the government has provided are representations by ministers summarizing a multitude of transactions. For example, the "certified statements" on ministers' travel expenses, referred to by the government, provide minimum information on types of expenditures. The certification refers to a statement signed by the minister that the expenditures have been incurred by the minister on official business. An audit of the receipts would verify whether the information shown in the certificate is correct and fairly presented.

In fact it is my view that ministers' office travel expenditures should be subject to the same audit process as all other government expenditures.

1.82 In fact it is my view that such expenditures should be subject to the same audit process as all other government expenditures.

1.83 I would like to thank the Public Accounts Committee for supporting my Office's right of access to the information needed to fulfil its responsibilities under the Auditor General Act. I hope that this issue can be resolved in the near future.

Making a Difference

1.84 I look forward to my tenure as Auditor General, to serving the House of Commons in conducting independent, high-quality audits and examinations. My objective will be to encourage accountability and improvement in government operations – in departments, agencies and Crown corporations. My overriding concern is to promote the efficient and effective use of taxpayers' money. Accordingly, the greatest professional satisfaction for me – and for my colleagues in the Office – will not be the disclosure of error, waste and loss, but rather the evidence that management has corrected unsatisfactory situations.

As we close in on the 21st century, I am looking for changes that translate into better results for the taxpayer.

1.85 Many of the issues facing government – the environment, the deficit, relationships with First Nations, the interaction of different levels of government, and so on – will shape not only the immediate future but our legacy to future Canadians. Respectful of the mandate given the Office, I want to make a difference. At the end of my term I want to be able to point to concrete achievements to which the Office has contributed. As we close in on the 21st century, I am looking for changes that translate into better results for the taxpayer. Where the Office makes recommendations, the focus will be on helping to find solutions that narrow the gap between the ideal and what is possible, recognizing the political process and the operating constraints on all levels of management.

Other Audit Observations

The following Other Audit Observations have been conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

Chapter 2

Audit Notes

Audit Notes

Main Points

2.1 The *Auditor General Act* requires the Auditor General to include in his annual Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

2.2 The Audit Notes chapter fulfils a special role in the annual report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report on audits and studies of issues that relate to operations of the government as a whole. The Audit Notes chapter is a compilation of individual matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities. It is also used to report some specific matters that have come to our attention during our comprehensive audits.

2.3 The chapter contains a wide range of notes. One note concerns a reservation in the auditor's report on a Crown corporation's financial statements for the year ended 31 March 1991. The other 18 notes concern departmental operations. One note on departmental operations deals with Parliament's control over taxing, and another note concerns access to information on undertakings to recommend amendments to the *Income Tax Act*. The remaining notes on departmental operations generally concern compliance with authorities, cash management practices, controls over revenue or the expenditure of public money without due regard to economy.

2.4 Although the notes report matters of significance, they should not be used as a basis for drawing wider conclusions about matters we did not examine.

Table of Contents

Paragraph

Introduction 2.5

Observations on Crown Corporations 2.8

Farm Credit Corporation
Limitation in the scope of the Auditor General's examination of Farm Credit Corporation's financial statements for the year ended 31 March 1991 2.9

Observations on Departmental Operations

Atlantic Canada Opportunities Agency
Failure to adhere to the authorities governing the Action Program 2.12
Failure to adhere to a Treasury Board authority 2.44

Canada Employment and Immigration Commission
Payments to a province for institutional classroom training without obtaining certification of the cost and number of training days, as required by an agreement 2.49

Department of External Affairs
After expenditures of $53 million, the future direction of the Canadian Online Secure Information and Communications System project is being reassessed 2.54

Department of Finance
Delayed recovery from the Province of Quebec of the amount in lieu of the Youth Allowances income tax abatement provided to Quebec residents has increased interest costs to the federal government 2.61
Income tax comfort letters may provide some taxpayers with an advantage not available to others 2.67

Departments of Finance and National Revenue - Taxation
Administrative procedures diminish Parliament's control over taxing 2.69

Department of Fisheries and Oceans
Project abandoned after expenditure of $2.5 million 2.93

Department of Industry, Science and Technology
Unnecessary payments made to avoid lapsing funds 2.96

Department of National Defence
Need to review the cost-effectiveness of the VIP vehicle fleet at Canadian Forces Base Ottawa 2.105

Table of Contents (cont'd)

Paragraph

Department of National Health and Welfare

Demonstrated disregard for control framework 2.114

Late payment of supplier invoices continues and interest costs remain high 2.126

There is significant overpayment and underpayment of benefits each year in the Department's Guaranteed Income Supplement program 2.138

$489 million overpayment to provinces resulted from failure to properly estimate advance contributions payable under the Canada Assistance Plan 2.150

Department of National Revenue - Taxation

Concerns about specific matters related to the administration of the *Income Tax Act* 2.159

Department of the Secretary of State

Excess Canada student loan amounts awarded in 1989-90 could cost taxpayers an estimated $39 million 2.176

Department of Transport

Limited consideration of risk in entering into a land lease agreement 2.186

Office of the Superintendent of Financial Institutions

Earlier billing of financial institutions for the cost of supervision and regulation could save the federal government at least $1 million annually 2.195

Audit Notes

Introduction

2.5 This chapter contains matters of significance not included elsewhere in the Report that we believe should be drawn to the attention of the House of Commons. They have come to our notice during our financial and compliance audits of the Accounts of Canada, Crown corporations and other entities, or during our comprehensive, value-for-money audits.

2.6 Section 7(2) of the *Auditor General Act* requires the Auditor General to call to Parliament's attention any significant cases where he has observed that:

- accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;
- money has been expended other than for purposes for which it was appropriated by Parliament;
- money has been expended without due regard to economy or efficiency; or
- satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

2.7 Each of the matters of significance reported in this chapter was examined in accordance with generally accepted auditing standards, and accordingly our examinations included such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions about matters not examined. The instances that we have observed are described in this chapter under the appropriate Crown corporation or department heading.

Observations on Crown Corporations

2.8 The Auditor General is appointed auditor of a number of Crown corporations and other entities, under the *Financial Administration Act*, individual Acts incorporating specific corporations, or by Orders-in-Council. Details of significant reservations and other matters contained in reports issued to these corporations and entities during the year are set out in this chapter. Although our observations on Crown corporations have already been raised in a public forum, they are reported in this chapter for emphasis and for consideration by Parliament.

Farm Credit Corporation

Limitation in the scope of the Auditor General's examination of Farm Credit Corporation's financial statements for the year ended 31 March 1991

The Auditor General has included a reservation in his report on the financial statements of the Farm Credit Corporation (FCC) for the year ended 31 March 1991. This is the second consecutive year that the Auditor General did not have sufficient evidence to conclude that the allowance for loan losses (and, consequentially, certain other items) in FCC's financial statements

> *were fairly presented in accordance with generally accepted accounting principles.*

2.9 Background. Management is responsible for preparing financial statements that fairly present the corporation's financial position and the results of its operations. In doing so, management uses supporting documentation, evidence and analyses for the assertions made in the financial statements. When, after reviewing the supporting documentation, evidence and analyses provided by management, and carrying out such other procedures as may be available to them, auditors conclude that they do not have sufficient and appropriate audit evidence to form an opinion on whether certain items in the financial statements are fairly presented, the standards of the profession require that they qualify their opinion in the form of a scope limitation in the Auditor's Report.

2.10 Farm Credit Corporation's financial statements for the year ended 31 March 1991 include loans receivable of $3,378.3 million (31 March 1990 - $3,573.4 million), which are stated net of a $232.7 million allowance for loan losses (31 March 1990 - $279.4 million). FCC's accounting policy for the allowance for loan losses requires that the allowance represent "...management's best estimate of probable losses on the loans outstanding at the end of the year."

2.11 Issue. The Corporation provided us with evidence and analysis supporting the inclusion of $136.1 million in the allowance for loan losses as at 31 March 1991 (31 March 1990 - $188.4 million). However, it was unable to provide adequate support, in our opinion, for the balance of the allowance of $96.6 million (31 March 1990 - $91.0 million). As a consequence, we were unable to satisfy ourselves as to the appropriateness of these additional amounts. Also as a consequence, we were unable to determine whether any adjustments might be necessary to FCC's allowance for loan losses and its deficit on its balance sheet, and to its provision for loan losses and its net income or loss on its statement of operations and deficit for each of the years ended 31 March 1991 and 31 March 1990. This was reported as a scope limitation in the Auditor's Report on FCC's financial statements for each of these years.

Observations on Departmental Operations

Atlantic Canada Opportunities Agency

Failure to adhere to the authorities governing the Action Program

> *During our examination of the Atlantic Canada Opportunities Agency's Action Program, as a part of the audit of the Public Accounts of Canada for the year ended 31 March 1991, we identified significant instances where officials of the Agency failed to adhere to the authorities governing the Action Program.*

2.12 Background. The objective of the Atlantic Canada Opportunities Agency (ACOA) is "to support and promote opportunity for economic development of Atlantic Canada...".

2.13 The objectives of the Action Program, ACOA's most significant program, are to foster the development of entrepreneurship, to increase the rate of new business formation and to improve the competitiveness of small and medium-sized enterprises.

2.14 During the fiscal year ended 31 March 1991, ACOA paid out $179 million through the Action Program, representing 67 percent of its total expenditures. ACOA made payments on approximately 4,200 Action Plan contribution agreements during that same period.

2.15 The principal authorities governing the Action Program are the "Action Program terms and conditions", which have received Governor in Council and Treasury Board approval. The Action Program terms and conditions provide direction on such things as the criteria for determining eligibility for financial assistance; the various types of financial assistance that can be provided; the maximum individual levels of assistance; and the conditions under which assistance payments can be provided. Although some of the terms and conditions are clearly stated, others require interpretation by ACOA officials.

2.16 As part of our audit of the Public Accounts of Canada, we examined 30 Action Program contribution agreements for which payments were made during the year ended 31 March 1991. Our examination of the supporting files revealed the following four significant instances where, in our view, ACOA failed to adhere to the Action Program terms and conditions and to the interpretive policies. Other observations have been referred to ACOA officials for their attention.

Case 1 - Failure to adequately evaluate the net economic benefit of a project and to adhere to internal policies

> *Enterprise Cape Breton (ECB), a part of ACOA, did not adequately evaluate the net economic benefit of a project prior to its approval. ECB did not adhere to internal policies when it advanced a further $1,470,000 after the commencement of commercial production, despite knowing that the necessary environmental certificates for the production process had not been granted by the Province of Nova Scotia.*

2.17 In July 1987, ECB received an application from a company for assistance to establish a facility in Cape Breton to manufacture vinyl wallcoverings.

2.18 In May 1987, the company had requested assistance from ECB under the Industrial and Regional Development Program but had withdrawn its application, primarily due to negative advice provided to ECB by the Department of Regional Industrial Expansion (DRIE). The Department expressed concerns about the project, citing existing industry overcapacity and the likely threat of countervail action if the level of assistance requested were provided.

2.19 In its application under the Atlantic Enterprise Program, now an element of the Action Program, the company proposed a two-phase approach, requesting assistance only for the first phase. Although this approach significantly reduced the assistance being requested from ECB, the total project cost did not change significantly. Information provided to the Minister for his approval of the project noted DRIE's lack of support for the first application for assistance, but did not indicate that DRIE's position on this second request was outstanding. In September 1987, one week after obtaining the Minister's approval but before the agreement was finalized with the company, DRIE provided Enterprise Cape Breton with its analysis of this request, and its conclusion that no new information had been supplied by ECB that would address its original concerns. This information was not subsequently provided to the Minister. The agreement was entered into on 17 September 1987.

2.20 In our view, DRIE's concerns had not been adequately addressed and the procedures used to evaluate the net economic benefit of the project, one of the eligibility criteria of the Action Program terms and conditions, were not adequate.

2.21 Subsequent requests for further economic assistance, which cited increased project costs, received ministerial and Treasury Board approval. Final ACOA assistance included an interest buy-down contribution (a form of interest rate subsidy) of $5,145,000 and loan insurance for loans valued up to $10,412,500. Final total eligible capital costs were estimated to be $15,450,000, with total federal assistance valued at $13,158,913.

2.22 In accordance with ECB policy, the interest buy-down contribution agreement contained a condition requiring the applicant, on or before the commencement of commercial production, to have incorporated and used environmental protection measures that satisfied the requirements of all regulatory bodies having jurisdiction. ECB determined that the company achieved commercial production as of 31 December 1988. Even though the facility was operating, it had not received environmental certification from the Province of

Nova Scotia. The provincial Department of Environment had serious concerns about emissions of organic vapours from the manufacturing process.

2.23 **Issue.** Even though Enterprise Cape Breton was fully aware of the absence of the provincial certification for the production process, it continued to advance funds to the company. It advanced $1,793,260, of which $1,470,000 was advanced after the commencement of commercial production, contrary to ECB's policy and the conditions of the contribution agreement with the company.

2.24 The company went into receivership in March 1991 without ever receiving environmental certification from the provincial Department of Environment.

2.25 The federal government is further exposed financially, due to the following:

- Since ECB provided loan insurance for loans from a commercial bank that were valued up to $10,412,500, it is conceivable that it will be required to honour any claim under this agreement.
- An environmental assessment of the facility, completed for the receiver, indicated that, in addition to the emission of organic vapours from the manufacturing process, there are problems with the storage and disposal of hazardous materials and there is potential soil contamination. An estimate of $400,000 was provided as the cost to clean up the facility. It is not clear who will be held responsible for clean-up costs.

Case 2 - Failure to adequately evaluate, monitor and control an Action Program contribution agreement

ACOA did not adequately evaluate the commercial viability of a proposed project in Newfoundland. Furthermore, ACOA failed to have the Minister approve several significant changes to the project, which occurred after his initial approval but before a contribution agreement was finalized.

2.26 In July 1988, ACOA received an application from a company for assistance to establish a facility in Newfoundland to produce vinyl windows and patio doors.

2.27 In its evaluation of the project, ACOA requested technical advice from DRIE. The Department of Regional Industrial Expansion expressed several serious concerns about the commercial viability of the project, including the projected level of sales and the economic disadvantage the company faced due to its distance from its main market in Ontario. The Atlantic Canada Opportunities Agency did not obtain other independent advice to assist in its evaluation of the project, and it did not forward any responses obtained from the applicant to DRIE for subsequent evaluation. In our view, DRIE's concerns were not adequately addressed, and the procedures used to evaluate the project's commercial viability -- a significant Action Program eligibility criterion -- were not adequate.

2.28 In August 1988, ACOA approved a non-repayable contribution of $5,225,000 based on total estimated eligible capital costs of $10,450,000. The total of all federal government assistance was valued at $6,078,000.

2.29 Information given to the Minister with the request for approval of the project described the ownership structure and the levels of expertise brought to the project by the owners. The original ownership structure was to have included individuals who would provide technical expertise, including knowledge of the manufacture of vinyl windows and doors and of market conditions in the key Ontario marketplace.

2.30 In October 1988, one of the shareholders informed ACOA of a change in the ownership structure of the project. An international plastics company would now control 50 percent of the company and bring its own technology and equipment into the project. The cost and size of the project were to rise but it was not clear by how much. The Atlantic Canada Opportunities Agency was provided with a market study by the new owner but did not receive a new business plan.

2.31 **Issue.** In our view, the change in ownership was significant to the commercial viability of the project. The Atlantic Canada Opportunities Agency should have completed a full re-evaluation of all aspects of the project, including commercial viability and the level of assistance requested. In addition, the Minister should have been informed of this significant change before the contract was finalized. In January 1989, ACOA entered into the non-repayable contribution agreement with the company without informing the Minister of the change in ownership and the implications this could have on the success of the project.

2.32 Since January 1989, ACOA has made payments to the company totalling $5,878,125, including allowable cost overruns.

2.33 In addition, the federal government is potentially exposed financially as follows:

- In the Atlantic Region there are several companies involved in the manufacture of vinyl window profiles. There was no indication in the ACOA files that an evaluation was done of the impact of the proposed facility on the operations of these manufacturers. The Atlantic Canada Opportunities Agency has informed us that a competitor of the company is taking legal action against ACOA, alleging that its support for the company played a significant part in the competitor's current financial difficulties.

Case 3 - Failure to adequately monitor and control an Action Program contribution agreement

> *Contrary to the Action Program terms and conditions, ACOA made second and third payments totalling $2,293,043 to a company in advance of its having achieved commercial production.*

2.34 In November 1988, ACOA received an application from a company for assistance to establish a facility in Saint John, New Brunswick to manufacture lightweight steel pallets, using a patented Swedish design.

2.35 In January 1989, ACOA approved a non-repayable contribution of $5,782,616 and an interest buy-down contribution valued at $1,219,904, based on estimated eligible capital costs of $11,565,233. In August 1989, ACOA also approved loan insurance for this project.

2.36 The Atlantic Canada Opportunities Agency determined the date of commercial production to be 28 February 1990, despite available file documentation indicating that the company was still in the product development phase. Subsequently, the company informed ACOA that it would have to redesign the product in order to meet North American consumer demands. At the date of our review, there was no evidence of production in commercial volumes and, as noted, the company had stated its intention to redesign the product. The Atlantic Canada Opportunities Agency had made three payments to the applicant, totalling $3,622,900.

2.37 Under the Action Program terms and conditions, only one payment, representing no more than 50 percent of the contribution agreement amount, may be paid prior to commencement of commercial production. In accordance with the company's request, ACOA made one payment of $1,329,857 prior to 28 February 1990.

2.38 **Issue.** In our view, commercial production was not achieved by 28 February 1990 and, by means of the second and third payments (which totalled $2,293,043), ACOA paid the company more than was permitted by the Action Program terms and conditions.

Department's response to cases 1, 2 and 3: *The Atlantic Canada Opportunities Agency considers that it has taken positive steps relating to those processes and procedures identified in cases 1, 2 and 3 above, as requiring improvement. More specifically, ACOA has either begun or intends to undertake a review of:*

- *the standard procedures and criteria used for evaluating commercial viability to determine their adequacy and application on a consistent basis.*
- *the criteria for the identification of what actions constitute a significant change in ownership for a client, and the conditions for notification to the Minister.*
- *the criteria for the determination of commercial production and its relationship to the advance of funds.*

Case 4 - Provision of an Action Program contribution for an ineligible project

> *In May 1990, ACOA approved the provision of an interest buy-down contribution toward the modernization and expansion of a fish-meal processing facility. The Action Program terms and conditions state that approval should not be given for projects that would proceed without funding. This project should not have been considered eligible for the interest buy-down contribution, as the construction of the facility was essentially complete at the time of approval.*

2.39 In July 1988, ACOA received an application from a company to expand and modernize its fish-meal processing facility in Nova Scotia. In September 1988, ACOA approved a non-repayable contribution of $1,277,400 based on estimated eligible capital costs of $4,258,000.

2.40 In April 1989, the company submitted an amended application requesting additional assistance, as it had decided to use a new process for its fish-meal processing facility that would raise the estimated capital costs of the project to $7,282,000. In September 1989, the amended request was rejected by ACOA. One of the reasons cited was that the company was considered to have sufficient financial strength to proceed without the additional assistance.

2.41 In early 1990, due mainly to financial problems caused by a downturn in the fishing industry, the company made representations to ACOA for interest buy-down assistance for the project.

2.42 On 16 May 1990, ACOA approved a non-repayable interest buy-down contribution amounting to $697,192. The Atlantic Canada Opportunities Agency signed the contribution agreement on 12 June 1990, although the project had been essentially completed by 30 May 1990.

2.43 **Issue.** Although, at the date of our review, the company had yet to make a claim for reimbursement under this interest buy-down contribution agreement, the Action Program terms and conditions state that no assistance may be given if the project would otherwise proceed without the funding. As this project was essentially complete, the additional request for interest buy-down assistance should have been rejected as ineligible.

Department's response to case 4: *The Atlantic Canada Opportunities Agency considers that non-continuance of the project may have been the outcome if the applicant had not received the additional interest buy-down assistance. The Atlantic Canada Opportunities Agency considers its actions with respect to approval of this additional assistance package to have been fully within the Action Program terms and conditions.*

Atlantic Canada Opportunities Agency

Failure to adhere to a Treasury Board authority

> *In September 1988, the Treasury Board authorized the Atlantic Canada Opportunities Agency (ACOA) to enter into a $19.9 million non-repayable contribution agreement with a New Brunswick provincial Crown corporation. The corporation, however, was unable to provide all the documentation required for a contribution arrangement. The Atlantic Canada Opportunities Agency changed a portion of the contribution agreement to a grant, thereby eliminating the requirement for supporting documentation.*

> *The Atlantic Canada Opportunities Agency did not request Treasury Board approval for this change, as required. To date, ACOA has paid $1.925 million to the corporation in the form of grants and $7.6 million in contributions.*

2.44 **Background.** In August 1988, ACOA received an application from a New Brunswick provincial Crown corporation, which provides technology and productivity improvement services to small and medium-sized business in New Brunswick. The request was for assistance in implementing a revitalization program over a five-year period.

2.45 In early September 1988, the ACOA Minister entered into a Memorandum of Understanding with the Province of New Brunswick to provide up to $20 million in assistance for the revitalization program. On 22 September 1988, Treasury Board approved the Minister's submission for a non-repayable contribution of $19.9 million to the corporation, under the Action Program.

2.46 **Issue.** Contribution agreements require the applicant to submit receipts or other supporting documentation to substantiate the expenditures claimed. The corporation, however, was unable to provide the necessary documentation to support the operating overhead portion of the claim. The Atlantic Canada Opportunities Agency changed a portion of the contribution agreement to a grant, thereby eliminating the requirement for supporting documentation.

2.47 The Atlantic Canada Opportunities Agency did not request Treasury Board approval before changing the nature of the payments. As a result, ACOA failed to adhere to the Treasury Board authority.

2.48 At the date of our review, ACOA has paid $1.925 million in grants and $7.6 million in contributions to the corporation.

***Department's response:** The Atlantic Canada Opportunities Agency will undertake a review of the future funding arrangements for the applicant and, if necessary, prepare a submission to Treasury Board to ensure the method of providing funds, whether by contribution or grant, is complied with.*

Canada Employment and Immigration Commission

Payments to a province for institutional classroom training without obtaining certification of the cost and number of training days, as required by an agreement

> *The federal government purchases adult training courses every year through federal-provincial/territorial agreements on institutional classroom training. Over a five-year period, the Canada Employment and Immigration Commission (CEIC) spent close to $500 million for one province without obtaining any cost certification from that province to confirm the claimed expenses.*

2.49 **Background.** The *National Training Act* allows Canada to conclude agreements with provinces and territories for the payment of training courses for adults and for apprentices at public learning institutions. The principles governing course planning, purchase and payment are outlined in the federal-provincial/territorial agreements on institutional classroom training.

2.50 Audit observations on training agreements have been the subject of past annual reports in 1978 and 1986. To follow up on these observations we examined agreements with three provinces, each of which had expired in 1990-91.

2.51 One of the conditions of the agreements requires certification by the province or territory for any expense related to the training it has provided. Such certification confirms the number of training days offered, as well as direct and administrative costs chargeable to the federal government for the year in question.

2.52 **Issue.** Our examination revealed that, over the past five years, the Commission paid almost $500 million to one of the three provinces even though it had not supplied the required cost certification for those years. In January 1991 the CEIC and the province, in an effort to solve the problem, signed a document of interpretation on matters of certification. At the time of our audit, the Commission was unable to obtain from the province the cost certifications provided for in the agreement.

2.53 In our opinion, the CEIC spent nearly $500 million over a five-year period without receiving certifications of the costs of institutional classroom training purchased under the terms of a federal-provincial agreement.

***Department's response**: Under the federal-provincial agreement on training, it is up to the province to provide course cost certifications to the CEIC. Even though a province has failed to provide these certifications, the CEIC is convinced, based on other available and verifiable sources of information, that the amounts of training expenditures are correct and allowable.*

Department of External Affairs

After expenditures of $53 million, the future direction of the Canadian Online Secure Information and Communications System project is being reassessed

> *Since 1987, the Department of External Affairs has invested $53 million in Phase I of the Canadian Online Secure Information and Communications System (COSICS) project, which is two years behind schedule, not yet fully operational, and may not be used for classified purposes until final acceptance tests are completed and certification obtained, expected in the fall of 1991. Given advances in computer technology, some of this investment will not be applicable in any future development.*

2.54 **Background.** The Department initiated the COSICS project to improve administrative efficiency and reduce person-years. Mission sites were to be provided with an integrated, secure and automated approach to telecommunications, word and data processing, and a centralized information management records facility. Plans for Phase I were to program additional security controls in an existing software package, acquire communications and terminal equipment, and install a secure network in North American sites. Phase II plans were to extend the project worldwide.

2.55 Our Office audited the COSICS project in 1987 during a review of departmental common administrative services. We reported that the Department risked exceeding cost estimates and that predicted savings would not be realized. In a follow-up audit in 1989 we found that, before the commencement of the project, approved cost estimates for Phase I had increased from $28.8 million to $50 million and total project estimates increased from $111 million to $208.6 million. We again reported that there was a risk of further cost increases, and again expressed concern that a portion of the expected savings in person-years would not be fully realized.

2.56 **Issue.** Having expended $53 million to date ($42 million for the main contractor and $11 million for the security upgrades at missions), the Department has delivered a North American communications network linking 1,100 terminals, with an electronic mail system, word processing and spreadsheet capability. The original estimated date of completion for Phase I was September 1989. The Department is still verifying the capability of the system to handle the full classified and unclassified operational traffic loads, and testing all the modifications to the security software. A working and stable system is a prerequisite for the departmental security authority to grant certification for classified communications. The Department now expects that the undelivered portion, as well as testing of the entire system, will be completed in the fall of 1991, with certification to follow soon after.

2.57 In February 1991 the Department completed an assessment of the COSICS project, and decided not to exercise its option to proceed with Phase II as planned. We support this decision. Since the project's conception in 1986, there have been advances in information technology that offer more cost-effective solutions. As a result, the Department investigated technology that would give a new direction to the project. It dissolved the project office and requested $1 million to pilot a revised system architecture based on local area networks for classified and unclassified communications in missions, and to undertake security threat and risk assessments. An Information Technology Strategic Plan for the next phase has also been prepared in consultation with Treasury Board Secretariat, and will be presented to Treasury Board Ministers for approval.

2.58 Some users, many of whom were already using other widely available personal computer packages, commented that the software package selected for COSICS was not up to their expectations. But electronic mail, which is central to the Department's operations, has been well received and constitutes the main use of the system. While the system was designed for classified communications, it has yet to be certified for such; however, we noted instances where it has been used for classified communications, in contravention of departmental security policy.

2.59 Anticipating a reduction of person-years as a result of COSICS, the Department reduced its budget by 114 person-years in return for project funds from the Treasury Board. The Department now believes that anticipated COSICS-related savings in personnel and operational costs will not be achieved. The Department obtained assistance from the Department of Supply and Services in managing the contract, but this still did not fully compensate for the lack of overall experience required to set up and manage a major Crown information systems project.

2.60 **Conclusion.** The Department shares our opinion that it underestimated the level of effort needed to develop and put into operation such a complex system and that it also overestimated the anticipated person-year savings. Moreover, security requirements continued to evolve over the life of the project, and there were significant difficulties in arriving at a consensus as to what constituted adequate systems security controls. As a result, the Department has developed a system for $53 million that will be used in Phase I sites but that will not be carried forward in the automation of other missions. The Department has suggested a review in 1993 to monitor the progress made, and we intend to do such a review.

Department of Finance

Delayed recovery from the Province of Quebec of the amount in lieu of the Youth Allowances income tax abatement provided to Quebec residents has increased interest costs to the federal government

> *Since 1974 the federal government has provided an income tax abatement of three percent (i.e. reduced the federal tax) to the residents of Quebec, which amount is recovered in full from the Province of Quebec. However, its recovery is delayed. As a result, there have been increased interest costs to the federal government -- an estimated $6 million for 1989 alone.*

2.61 **Background.** Prior to 1964 the Family Allowances Program, a federal program applying to all provinces, provided benefits to children under the age of 16 years. In 1964, Parliament enacted the *Youth Allowances Act* to provide monthly allowances to parents supporting children who were of 16 and 17 years of age. The benefits under this Act were available to all provinces except Quebec, which already had its own program of benefits for that age group. To put Quebec residents on the same footing as those of other provinces, the federal government allowed them an individual income tax abatement of three percent in lieu of the youth allowances it would otherwise have paid them.

2.62 In 1974 the Family Allowances Program was expanded to include children of 16 and 17 years of age. As a result, both the Youth Allowances Program and the similar Quebec program were terminated. The federal and Quebec governments agreed that the three percent individual income tax abatement would continue, with the provision that the federal government would recover the abatement from the Province of Quebec. The schedule of payments has resulted in a delay in the recovery of the abatement for each year since 1974 (except 1988, for which there were special arrangements). The total amount recovered for 1989 -- the latest year for which final figures are available -- was $347 million.

2.63 **Issue.** The three percent abatement is built into the federal individual income tax withholding tables for the Province of Quebec. The benefit of this abatement, therefore, is being transferred to the residents of Quebec throughout the year. But for the taxation year 1989, for example, the payments by the Province of Quebec to the federal government were made about 50 percent (of the estimated amount) on 3 April 1989 and the balance on 30 March 1990. Taking the time value of money into account, the payment schedule should have been advanced by a few months. The delay in recovering the funds has resulted in additional interest cost to the federal government. We have estimated (using average 90-day Treasury Bill rates) that, for the 1989 taxation year alone, the interest costs amounted to approximately $6 million. For the entire period from 1974, the interest costs would be substantial, particularly when the compounding effect is taken into account. Earlier recovery of the abatement could eliminate these additional interest costs.

2.64 The Department is of the view that Youth Allowances Recovery is an integral part of the framework of federal-provincial fiscal arrangements, which is governed by rules quite different from those for commercial transactions. In particular, interest neutrality has never been a primary objective of these arrangements. Indeed, under the fiscal arrangements legislation, all provinces receive interest benefits from a federal policy that defers the recovery of overpayments to them.

2.65 However, we have noted that the regulations issued under the fiscal arrangements legislation, which permit the deferral of recovery of overpayments from the provinces, apply only to the fiscal transfer payments programs, namely fiscal equalization payments, fiscal stabilization payments, revenue guarantee payments and to the income tax payments under the tax collection agreements. Even in those cases, the time value of money is an important consideration in designing the time schedule for payments.

2.66 In our view, the Youth Allowances Recovery is a specially designed arrangement whereby Quebec has agreed to compensate the federal government fully for the three percent tax abatement. Therefore, the schedule of payments adopted should be improved to take better account of the time value of money. The Department of Finance has advised us that it will, as it has done in the past, include cash management considerations in its forthcoming discussions with provinces.

Department of Finance

Income tax comfort letters may provide some taxpayers with an advantage not available to others

A comfort letter provides a taxpayer with an undertaking that amendments to the Income Tax Act will be recommended. Because they are given without public announcement, they do not meet a commitment made in the Declaration of Taxpayer Rights, and they may provide some taxpayers with an advantage not available to others.

2.67 **Background.** If an amendment to the *Income Tax Act* is to be proposed as a result of a suggestion made by a taxpayer, the Department of Finance will, on request, issue the taxpayer a letter of comfort undertaking to recommend amendments to take effect on a specified date. The Department of Finance advised us that, during 1990, 20 letters of comfort were issued to taxpayers or their representatives.

2.68 **Issue.** It has not been the practice of the Department of Finance to make a public announcement at the time a letter of comfort is issued. We are concerned that this practice breaches a commitment made to taxpayers in the Department of National Revenue - Taxation's Declaration of Taxpayer Rights. Taxpayers are told they have the right to expect that the government will make every reasonable effort to provide them with access to full, accurate and timely information about the *Income Tax Act*, and their rights under it. We are also concerned that this practice may provide some taxpayers with an advantage not available to others.

***Department's response**: The Department of Finance considers the OAG's concerns with respect to income tax comfort letters to be overstated. These letters are provided in order that taxpayers may conduct their business affairs and other concerns with more certainty and invariably relate to relatively narrow technical, as opposed to policy, questions; a comfort letter never indicates a change in government policy but rather confirms that an amendment will be recommended to correct a technical deficiency to ensure that the legislation achieves its original intent. Since comfort letters deal with technical matters only and serve to reinforce already established policy they are of very narrow interest; nor is any information provided in a comfort letter which could give a particular taxpayer an advantage over others. Moreover, the government intends to release a package of income tax technical amendments on an annual basis, so that taxpayers will not be subject to more lengthy waiting periods as in the past before these amendments are released to the public.*

Departments of Finance and National Revenue - Taxation

Administrative procedures diminish Parliament's control over taxing

> *Proposed changes to the Income Tax Act are often administered as though they were law. The departments of Finance and National Revenue - Taxation believe that this is not an infringement on Parliament's jurisdiction -- it enables Parliament to operate more responsively to the needs it seeks to address through the tax system.*
>
> *We believe that the practice of administering proposed tax changes in anticipation of their passage by Parliament, and other assessing practices not authorized by law, violate the basic principle that the right to tax rests with Parliament, through the legislative process.*

2.69 **Background.** It is a long-standing practice to put certain proposed tax measures into effect before they are enacted in law. Until the enabling legislation is passed by Parliament, with a provision for retroactive application, the payment and collection of these taxes is voluntary, and legally cannot be enforced.

2.70 This practice is common in the commodity tax system. For example, tax increases on tobacco products announced in a budget usually take effect at midnight the same day. Tobacco product manufacturers begin collecting the tax increase from their customers as soon as it comes into effect. However, they are not obligated to remit to the government the increased taxes they collect, until the enabling legislation receives Royal Assent.

2.71 The provisional implementation of commodity tax changes poses problems because the tax is imposed on a transaction basis, and redress is not as simple as in the income tax system. In the unlikely event that a taxpayer voluntarily paid income tax increases that did not become law, on the subsequent filing of an income tax return a refund could probably be obtained. However, in the commodity tax system, if the collection agent (in this example the tobacco product manufacturer) does not collect the announced tax increase, it risks having to subsequently pay amounts not previously collected. If the tax increase is not enacted by Parliament, the risk is that the consumer will be out of pocket. As the GST matures and proposed changes to it are announced, millions of taxpayers could be exposed to these risks.

2.72 The provisional implementation of tax changes has not been as common in the income tax system. The Department of National Revenue - Taxation (NRT) in the past has declined to assess or to issue refunds where these were dependent on budget proposals that were not yet law.

2.73 We have observed a growing tendency by NRT to administer proposed changes to income tax laws as though they had been enacted.

2.74 The Department has advised us that it does this to avoid public confusion, improve administrative efficiency and reduce the need for later adjustments to returns. The Department of National Revenue - Taxation recognizes that, should Parliament change or not pass such proposed legislation, adjustments to some returns would be necessary. However, it is unlikely that it could identify all those returns; moreover, NRT could be barred by statute from adjusting returns. As a result, proposed legislation could effectively represent tax law, even though not enacted by Parliament.

2.75 In May 1985 the Minister of Finance provided Parliament with a paper entitled "The Canadian Budgetary Process: Proposals for Improvement". The paper dealt with the issue of putting proposed tax measures into effect before they are enacted in law. The paper contained a draft bill entitled the Provisional Implementation of Taxation Measures Act. The bill would have given statutory effect to proposed tax measures. Taxpayers would have had to pay and file and remit taxes on the basis of the proposed tax measures. The Department of National Revenue - Taxation would have had to assess, collect or refund taxes; third parties would have been required to deduct, withhold and remit taxes.

2.76 In its Report of 17 December 1985 considering the paper, the House of Commons Standing Committee on Procedures and Organization found the collection of taxes without the authority of Parliament to be offensive. On principle, the Committee recommended the rejection of the whole concept of a Provisional Implementation of Taxation Measures Act. However, if the government wished to proceed along this route, the Committee recommended a number of changes to the proposed bill. The bill was not enacted.

2.77 **Issue.** The practice of administering proposed tax changes in anticipation of their passage by Parliament, and other assessing practices not authorized by law, violate the basic principle that the right to tax rests with Parliament, through the legislative process. Some examples follow.

2.78 **National Labour-Sponsored Venture Capital Corporation Tax Credit.** Draft legislation released in January 1990 provided for a federal tax credit for taxation years after 1988 to individuals who invested in shares of a nationally registered, labour-sponsored venture capital corporation. The credit was 20 percent of the purchase price of the shares, to a maximum of $700 a year.

2.79 Although NRT did not have legislative authority, it advised us that it allowed about $600,000 in credits to taxpayers who claimed them on 1989 tax returns.

2.80 **Interest deductibility.** On 2 June 1987 the government tabled a notice of a Ways and Means motion indicating that it intended to amend the rules for deducting interest paid on money borrowed before 1989. The motion was extended to include money borrowed before 1990, and then 1991. The motion was used to continue administrative practices that had existed before a 1987 Supreme Court of Canada decision contradicted the principles upon which those practices were based.

2.81 Although NRT did not have legislative authority, it administered the motion as though it were law.

2.82 The Department of Finance has been reviewing the rules on the deductibility of interest and other financing costs since 1987.

2.83 **Draft income tax legislation.** In February 1991 the Department of Finance released revised draft technical amendments to legislation introduced the previous year. It also released new draft legislation to implement a new system of tax benefits for residents of

Canada's northern and isolated regions. The proposed legislation, which contains retroactive and retrospective provisions, is intended to implement the income tax measures set out in the February 1990 budget and other proposals announced that spring. It also contains a significant number of technical amendments, which correct or clarify the application of existing income tax provisions.

2.84 The departments of Finance and National Revenue - Taxation had suggested that taxpayers complete their 1990 tax returns in accordance with the proposed tax measures. Where possible, 1990 public forms such as the 1990 T1 Guide informed taxpayers of the proposed changes. Most of the proposed changes were "favourable" to taxpayers; however, the bill provides for an increase in surtaxes in 1991, and current employee withholding taxes already reflect this.

2.85 Although NRT did not have Parliamentary authority, it administered the draft legislation as though it were law.

2.86 To examine a possible effect, we looked at the proposed changes to the child care expense deduction.

2.87 **Child care expense deduction**. By choosing to administer the proposed legislation, NRT gave taxpayers the option of using either the existing law or the proposed legislation.

2.88 The law allowed taxpayers to deduct child care expenses paid to relatives 21 years or older. The proposed legislation would allow the deduction of child care expenses paid to relatives 18 years of age or older. Returns of taxpayers using the more liberal proposed legislation would have to be adjusted if it were not enacted, but NRT did not have a mechanism in place to identify those returns. Without a manual review to identify affected claims, the proposed legislation would effectively represent tax law -- law established by NRT and the Department of Finance, not by Parliament.

2.89 **Remission order.** Prior to 1983, NRT had interpreted section 87(1) of the *Indian Act* as exempting Indians from taxation on employment income earned on reserves, notwithstanding where the employer was situated.

2.90 In 1983, the Supreme Court of Canada ruled that the criterion for exemption was the location of the employer rather than the place where the income was earned.

2.91 As a result of that decision, the government issued a remission order covering taxes, interest and penalties assessed for the years 1983 to 1985. The remission exempted employment income earned on reserves by Indians, even where the employer was off the reserve. This effectively continued the practice in existence before the Court's decision. The order was issued to provide a temporary solution while potential legislative solutions were studied. However, the order was subsequently extended to 1990 and now also exempts pension income derived from exempt income and certain training allowances.

2.92 It has been six years and a legislative solution still has not been presented to Parliament. Moreover, the remission order extends back to 1983, eight taxation years ago.

Departments' response: *The practice of administering certain income tax measures proposed by the government before they have been enacted cannot be said to diminish Parliamentary control over the tax system. On the contrary, the operational necessity of the practice and its considerable benefits to both taxpayers and government mean that it facilitates the exercise by Parliament of its fiscal powers.*

The basis for this practice is the release to the public of proposed legislation, or the presentation in Parliament of a Notice of Ways and Means Motion or a bill, setting forth proposed tax measures and specifying the date on which they will be effective. The administration of the measures as of the effective date proposed is neither a disregard of the law nor in disrespect of Parliament. Until a proposed tax measure is given Royal Assent there is neither any legal requirement for the *taxpayer to pay a proposed tax, nor any legal authority for the government to enforce its collection. This is well established and well known.*

The administration of proposed tax measures is thus in no sense a usurpation of Parliament's constitutional responsibility for legislation. It is, however, a practical necessity if many of Parliament's objectives for the tax system are to be realized. Fiscal, economic, anti-avoidance and relieving measures can all require an effective date prior to the date of Royal Assent. On the fiscal side, for example, the result of a measure designed to reduce or increase government revenue by changing the effective tax rate on a certain type of income will be impossible to predict if the measure takes effect only as of Royal Assent – a date which necessarily cannot be foreseen, given the fluidity of Parliamentary processes. For government to operate efficiently and responsibly, some certainty as to the fiscal impact of a given tax measure is a basic requirement.

Tax measures intended to implement economic or social policy, such as the example cited in the report, may also need to be effective before enactment. Where a tax credit or other benefit is targeted at a group or region determined to merit special attention, to delay its application until enactment would almost certainly reduce its effectiveness. Indeed, such a delay could give rise to a perverse impact if, for example, investment intended to be encouraged by the measure were delayed during the interim period.

Anti-avoidance measures – those which prevent the continued exploitation by certain taxpayers of unintended features of the tax system – must often be effective immediately upon announcement. Otherwise, the announcement would serve as nothing more than an advertisement of the avoidance opportunity.

Finally, a large proportion of the tax changes introduced in recent years have been designed to relieve taxpayers of the inappropriate effects of defects or inequities in the existing legislation. In such a case, an early or even retroactive coming-into-force will often be necessary in order to correct an unintended and unforseen hardship. Many of the measures included in the package of draft income tax legislation referred to in the report fall into this category.

It does not follow that a measure which is appropriately brought into effect as of a date preceding enactment must necessarily be administered as though it had been in place from that date. It would be at least theoretically possible for taxpayers and the Department of National Revenue to operate on the basis of the existing legislation until the new measure is enacted, and then refile or reassess with respect to all events and transactions since that earlier date. The report states that the Department of National Revenue administers proposed tax amendments "to avoid public confusion, improve administrative efficiency and reduce the need for later adjustments to returns." This description is accurate, but two points should be emphasized. First, the Department of National Revenue cannot and does not compel taxpayer compliance with proposed measures. Second, the benefits of this practice are by no means restricted to National Revenue. There are a number of significant operational reasons why it is in the interests of both taxpayers and government to follow this practice. Taxpayers who choose to file on the basis of the new measure can avoid the difficulty of recalculating their taxes and refiling returns; employers and others responsible for withholding taxes can protect themselves from later additional liability; and non-deductible interest charges can be avoided. The Department of National Revenue, for its part, is spared the need either to reassess returns filed under the old law or to stockpile returns until enactment.

Should Parliament choose not to enact a proposed tax measure, a taxpayer who has been assessed on the basis of the measure may be reassessed. Two concerns in this regard are addressed in this report. The first is the unlikelihood that all affected returns could be identified by the Department of National Revenue. As an example, the report cites the

Department's administration of proposed changes to the child care expense deduction – a relieving amendment. The report expresses concern that individuals filing under the proposed legislation will not be identifiable, and thus not subject to reassessment, if the amendment is not enacted. This, it should be noted, is a prudential question, relating more to the mechanics of administration of proposed tax changes rather than a question of its legality. At that pragmatic level, the possibility that some returns might escape detection must be weighed against the enormous costs to taxpayers and government alike of foregoing all anticipatory administration.

The second concern raised is the possibility that the adjustment of returns to reflect the non-enactment of a given measure might be statute-barred. For this to occur, the three-year reassessment period must have elapsed between the announcement of the measure and its ultimate failure to be enacted (presumably manifested by the withdrawal of the legislation in question or its enactment without the measure). While possible, this is an unlikely event.

The report identifies two other particular administrative policies: the administration of the Notice of Ways and Means Motion regarding the deductibility of interest expenses; and the continuation of the Indian taxation remission order. The focus of the report is the justifiability of the administration of proposed tax changes before their enactment in general. The continuation of the existing administration with respect to interest deductibility is an example of an appropriate and indeed, necessary application of this practice: incalculable commercial, administrative and legal difficulties would have arisen had the Department of National Revenue attempted to administer on the basis of the uncertain state of the law following the Bronfman Trust decision. The other objection, to the Indian taxation remission order, is not on its face an objection to the order's lawfulness, but rather to its continuation. The Departments of Finance and National Revenue acknowledge the desirability of replacing the remission order, and, in fact, the Department of Finance has launched a comprehensive review of Indian taxation issues. The review will seek to develop a federal policy for a new tax relationship with Indians, particularly in the context of Indian self-government, that defines the tax powers of Indian governments and, where applicable, provides clear rules for exemption from taxation.

In summary, the Department of National Revenue is aware that its mandate is to administer the income tax law once it is enacted. However, the tax cycle is an annual process, and guides and forms must be prepared and published in advance; also the system is highly modernized in its use of computer applications that require to be programmed for the annual cycle of return processing. Normally budget changes announced in the spring become law by December, in time for the annual processing in March to June. In recent years, however, the time involved in the legislative process has placed the Department in the position of having to suggest to taxpayers that they comply with proposed law. Most taxpayers have done so willingly to avoid the possibility of duplicate filing. While the Department would rather that the law was passed before it is administered, it generally has little choice but to suggest that taxpayers comply with proposed law to avoid public confusion, inconvenience and to deliver the tax process efficiently.

Thus it is the opinion of the Department of Finance and the Department of National Revenue that the practice of administering certain tax changes in anticipation of their passage by Parliament is defensible as a practical necessity for the efficient administration of the system and execution of the government's fiscal and tax policies. Far from being an infringement of Parliament's jurisdiction, the practice – which rests on the voluntary compliance of taxpayers – enables the legislature to operate more responsively to the needs it seeks to address through the tax system.

Department of Fisheries and Oceans

Project abandoned after expenditure of $2.5 million

> *The Department of Fisheries and Oceans spent $2.5 million in an attempt to replace an existing information system. The project has not been completed because of poor planning, implementation and control.*

2.93 Background. In 1987 the Department of Fisheries and Oceans decided to replace an existing management information system (MIS). This system was supported by hardware that was approaching the end of its life expectancy and was no longer available from the supplier. The replacement was expected to increase the processing speed of the existing MIS by using more technically advanced hardware and software. The system was to consist of a data base, located at headquarters in Ottawa, that would be supplied with information from the regions by a communications link. The originally estimated cost of the conversion was $522,000, with an estimated time for completion of six months.

2.94 Issue. The Department did not conduct a user requirement study, which would have matched the information produced by the system to user needs. It also failed to develop specifications for hardware, software and communication links before beginning the replacement. After a series of attempts at developing the application software, it was established that the system could not perform as required without extensive modifications.

2.95 In 1990 the project management changed, and the new management decided to assess the project to date. By this time the Department had spent $2.5 million dollars including $330,000 for equipment over three years. The assessment revealed that the best alternative was to suspend the project.

***Department's response:** The Department has reoriented its approach to informatics project management to ensure proper involvement of specialist staff and improved project planning and control that conforms to Treasury Board policies.*

Most of the equipment purchased during the replacement project is multi-purpose in nature and is currently being used in the Department.

Department of Industry, Science and Technology

Unnecessary payments made to avoid lapsing funds

> *To avoid lapsing funds, the Department of Industry, Science and Technology (ISTC) changed its normal cost-sharing practices in several contribution agreements with a number of companies under the Defence Industry Productivity Program. As a result, ISTC spent about $28 million more than it otherwise would have in 1990-91.*

2.96 Background. To avoid lapsing funds under the Defence Industry Productivity Program (DIPP), ISTC amended several existing contribution agreements in March 1991 to retroactively increase the amounts it could pay to companies for projects in the fiscal year ending 31 March 1991. These additional payments came to $22.1 million. Roughly one third of these amounts were paid for project claims already fully settled in previous fiscal years.

2.97 The amendments took the form of an increase in the ISTC share of eligible costs, to as much as 90 percent of the claims under these agreements. The ISTC share had previously ranged from 35 to 50 percent.

2.98 In addition, the ISTC share for the 1990-91 portion of a contribution agreement signed on 29 March 1991 was set at 90 percent, rather than 50 percent as had been previous practice with that company. ISTC paid $13.2 million under this agreement in 1990-91. This was $5.9 million more than it would have paid under the normal 50/50 sharing ratio.

2.99 The overall result was that in 1990-91 ISTC spent $28 million more than it otherwise would have under DIPP.

2.100 Forecasting cash flows is difficult in the environment in which ISTC operates. The Department received Treasury Board approval to re-profile to future years $50 million of unspent contribution funds from 1990-91. It reprofiled this amount from programs other than DIPP, and changed the DIPP agreements so that the further $28 million would not lapse.

2.101 The amendments to the contribution agreements call for the companies to repay the increased ISTC share by submitting future claims in the normal way, but accepting an ISTC sharing ratio of zero as of 1 April 1991. This is to continue until the amount of additional funding received in 1990-91 is offset – that is, until the point when company claims and ISTC payments are restored to the sharing ratios in the original agreements. If this were to take between six months and a year, the additional interest cost to the Crown would be between $1 and $2 million.

2.102 As part of its approach, ISTC will ask companies who benefited from these early payments to favourably consider reverse agreements in future projects – that is, for the ISTC share to be lower initially and higher in later years. ISTC will also attempt to recover the interest cost of the early payments as part of this new approach to cost sharing in future agreements. However, ISTC has not obtained specific commitments from the companies who benefited from these arrangements to adjust future agreements in its favour.

2.103 **Issue.** In our view, retroactively increasing the amount to be paid under signed contribution agreements is not a sound business practice – particularly when the companies involved have not indicated that there was any need to do so. This practice also circumvents the fundamental requirement that unused appropriations should lapse at the end of the fiscal year.

2.104 Although ISTC is attempting to minimize the cost to the Crown of these arrangements, we disagree with this approach to cash management. In our view, it is based on a premise that all funds authorized for a program in a particular year should be spent in that year. This premise is contrary to government policy, which is that the authority to spend does not impose a requirement to spend all of the amount authorized.

Department's response: *The Office of the Auditor General has acknowledged that it is questioning neither the legality of the payments nor the due process which was followed in their authorization. Rather, there is a genuine difference of opinion between the Department and the OAG as to whether these cash management arrangements should have been made in the way that they were.*

Good business practice has been uppermost in our intentions; namely, to manage appropriated funds to create jobs and to advance the international competitiveness of our clients in a manner consistent with the approved purposes of the DIPP program. We are managing scarce resources in a multi-year time horizon. In our view, we should not be passive observers of events but instead must continuously anticipate and respond to the changing dynamics faced by our clients.

Our cash management initiatives are taken always with a view to incurring little or no additional cost to the Crown, including an appropriate recognition of the time value of money.

Department of National Defence

Need to review the cost-effectiveness of the VIP vehicle fleet at Canadian Forces Base Ottawa

> *Canadian Forces Base (CFB) Ottawa has a VIP fleet of 17 vehicles divided into a 6-vehicle "taxi" pool and an 11-vehicle VIP pool. The vehicles are available for use by the Department of National Defence (DND) generals and civilian executives and by non-DND VIPs. We found that the "taxi" pool was almost always used by DND personnel*

below these ranks, and that the VIP pool was used more than 80 percent of the time by generals and executives. Our findings indicate that 5 vehicles would suffice more than 90 percent of the time for transporting non-DND VIPs.

2.105 Background. In general, pay, benefits and other conditions of service in the military are to be comparable with those in the public service, while still recognizing unique military requirements.

2.106 Canadian Forces Base Ottawa has a fleet of 17 vehicles to provide transportation for Canadian and foreign "VIPs". These vehicles are not used by the Minister, the Chief of Staff, or other chiefs of staff who have dedicated vehicles. The Department of National Defence states that it is government policy that a fleet be maintained for non-DND VIPs, and it is DND policy that CFB Ottawa provide duty-related transportation support services for certain DND personnel considered by DND to also be VIPs. They include 55 generals and 69 civilian executives in Ottawa, and similar DND personnel outside Ottawa. These personnel are in the management category of the public service or at equivalent levels.

2.107 All 17 vehicles have drivers on call 24 hours a day, 365 days a year. The vehicles are full-size sedans and cost about $17,000 each. The number of persons assigned to operate the VIP vehicle fleet varies according to workload. On average, the equivalent of about 31 drivers and 2 dispatchers is required to operate the fleet. In 1990 the drivers logged about 6,230 overtime hours, or 19 hours per driver per month. We were told that, from time to time, staff of the VIP vehicle pool are assigned to other duties, such as honour guards, Base Defence Force, work parties, etc.

2.108 The 17 vehicles forming the VIP fleet have been divided into a "taxi" pool and a dedicated VIP pool. Vehicles are assigned to both pools each day.

2.109 The taxi pool has 6 vehicles and is supplemented by private taxis. We found that these vehicles were used only by DND personnel. About 94 percent of the time, the taxi pool is used by DND personnel below the rank of general, or by civilian executives. The Department of National Defence policy requires that a request for such use must be from a person on the authority list for official DND business. Use of the taxi pool is on a first come, first served basis.

2.110 Any request from generals or civilian executives, received 24 hours in advance, is met from the VIP pool. The 11 vehicles in the VIP pool are dedicated for use exclusively by non-DND VIPs or DND generals or executives. In peak periods they are supplemented by rentals, by vehicles from the VIP taxi pool and by other general-purpose vehicle pool resources.

2.111 We reviewed the use of these 11 vehicles and rentals for 1990-91. The 11 vehicles and supplementary rentals were used for about 18,000 hours. About 19 percent of these hours were used to transport non-DND VIPs, and the remaining time was used by DND generals and executives. Most of the non-DND VIP use was from April to July. Our analysis indicates that vehicles were used for non-DND VIPs on 149 days in 1990-91. We found that DND rented vehicles on 90 days (totalling 305 rental days), at a cost of about $8,000, to supplement VIP fleet vehicles.

2.112 During 1990-91 there were 3,519 trips, or about one trip a day per car. Trips ranged from one to 24 hours. Information on specific destinations was available for about 90 percent of the trips. The other 10 percent were logged in "as directed". More than half (54 percent) of the trips for which destination information was available were to residences or airports. A typical trip required the driver to be available one hour before the vehicle needed to leave the base. The vehicle was driven from the CFB Ottawa near the Ottawa airport to the location of the user, and then to the user's destination, waited at either or both locations, and was driven back to the base and usually washed.

2.113 Issue. The use of the VIP fleet by non-DND VIPs never exceeded the availability of the existing 17 VIP fleet vehicles during the fiscal year. We found that a fleet of 3 vehicles would be sufficient to provide transport for VIPs about 78 percent of the time. A fleet of 5 vehicles would suffice 91 percent of the time. These findings indicate that the number of vehicles in the total VIP fleet could be reduced from 17 to 5 or even 3, if the fleet provided service only to non-DND VIPs. These vehicles, with supplementary rentals, could provide transport to such VIPs. In view of these findings, we recommend that DND review the cost-effectiveness of the CFB Ottawa VIP fleet.

Department of National Health and Welfare

Demonstrated disregard for control framework

In an effort to obtain better value for money, the Department entered into an arrangement with a private sector firm to provide travel services to consultants and Department employees. In doing so, Department managers operated beyond their authority and breached numerous policies and directives in place to control the management of cash, contracting, travel and financial-reporting practices.

2.114 Background. This year the Income Security Programs (ISP) Branch of the Department of National Health and Welfare (NHW) completed the planning phase of the ISP redesign project. This is a multi-year project intended to upgrade the systems and delivery aspects of the Old Age Security and Canada Pension Plan programs.

2.115 The planning phase of the redesign project was to involve a significant amount of travel for both contractors and NHW employees. In an attempt to minimize costs, an early decision was taken to investigate the possibility of arranging cost-beneficial travel services by ensuring that lowest logical airfares were always obtained and by prepaying the travel costs.

2.116 In July 1990 arrangements were finalized with a firm that promised to turn a prepayment of $500,000 into $633,000 worth of travel. This would be accomplished by offering lowest logical airfares and by applying interest earned on the monthly balance of the account toward travel costs.

2.117 In February 1991 the assistant deputy minister of the ISP Branch requested that an internal audit be conducted, to determine the validity of charges to the travel account and the value for money obtained by the Crown as a result of the travel arrangements. That report, dated June 1991, was accepted by the ISP Branch management and contained management responses to the audit findings. Our observations are based on the results of that audit and, as required for purposes of reliance, we completed a review of the supporting audit files and satisfied ourselves that the work was carried out in accordance with appropriate professional standards.

2.118 Issue. The Treasury Board (TB) travel directive requires that all commercial air travel for public servants be reserved through the Government Travel Service unless otherwise authorized by the TB. Although the contract does not say that NHW employees would receive travel services, the audit report response by ISP Branch management acknowledges that they knew and intended all along that the contract was to pay for public servants' travel. Department management believed that the contract complied with the TB policy because it had been let by the Department of Supply and Services (DSS). The contract was not authorized by the Treasury Board, however, and therefore did not comply with the policy.

2.119 The internal auditors concluded that none of the conditions in the DSS contracting policy that would justify advance payments had been met, and that there had been no justification for an advance payment in the full amount of the contract. The required TB approval for such an advance payment was not obtained. The original agreement did not provide for an advance payment and the amendment to that effect was not signed until 23 May 1990.

2.120 Additionally, the Department does not have net-voting authority; thus, revenues earned must be credited to the Consolidated Revenue Fund (CRF) and are not available to the Department to increase program funding. Such authority must be specifically granted by Parliament. Over the 13-month course of the contract, the advance payment earned $59,000 interest, which was credited to the travel account and not the CRF. This interest was not reported in the Public Accounts as revenue.

2.121 The TB Guide on Financial Administration directs that cheques be mailed directly to the payee and never placed in the hands of persons who have been involved in the procurement or requisitioning process. In this case, the cheque was taken to Toronto by an employee who was very much involved in the process, and was deposited on 4 May 1990 at a local bank for later release to the firm providing the travel services. The auditors also concluded that the advance payment was not properly protected by a performance bond during that period, as was required.

2.122 Although the advance payment was requisitioned on 26 March 1990, the funds were not received by the firm until 18 July and NHW did not sign the final agreement until 23 July. The internal auditors concluded that the contract control processes of the Department had failed to ensure the financial prudence and probity of this transaction. Department management responded in the audit report that steps were taken in the fall of 1990 to strengthen the Branch's contract review process.

2.123 The Department reported the expenditure for the advance payment incorrectly in the 1989-90 Public Accounts. The $500,000 was recorded as a 1989-90 expense for professional services rather than for transportation costs. In addition, the travel charged against the account actually took place in 1990-91 and, at the end of that fiscal year, $350,000 of the advance still remained unspent. In June 1991 the Department recovered $348,026 representing the balance of the account, including all accrued interest, and deposited it to the CRF.

2.124 Did the Department, after all, obtain better value for money? The internal auditors reported that the travel services obtained under the arrangement cannot be shown conclusively to have realized actual savings. However, they did find that the travel transactions tested were all related to valid and legitimate ISP redesign business; the class of air travel used was consistent with TB policy; and charges to the account were accurate. There was no loss to the Crown.

2.125 **Conclusion.** Managers of the ISP redesign project did not fully investigate and comply with all requirements, in their efforts to obtain better value with the resources available to them. Although the internal audit found that there was no fraudulent intent, the nature and extent of the instances of non-compliance displayed a disregard for the control framework that was in place. Management's intent should be to encourage innovative and cost-effective program delivery within the bounds of existing control frameworks or to seek relief from those controls if they can be shown to be an unreasonable constraint.

Department of National Health and Welfare

Late payment of supplier invoices continues, and interest costs remain high

> *Interest costs incurred by the Department of National Health and Welfare (NHW) due to late payment of supplier invoices have escalated to $686,000 for the fiscal year 1990-91. Over the last five years, failure to pay supplier accounts on time resulted in payment by the Department of $2.5 million in interest charges, which could have been spent more productively for program purposes.*

2.126 **Background.** In 1985 the Treasury Board introduced a new policy for the settlement of contractual commitments. The purpose was to promote good cash management by departments when paying for goods and services and to fairly compensate suppliers when payment was unavoidably delayed. Effective 1 April 1986, this became the payment-on-due-date (PODD) policy.

2.127 Under this policy, payments are to be scheduled as close as possible to, but no later than, a standard payment period of 30 days. Departments are to ensure that their systems and procedures are designed to meet this standard.

2.128 If payment is not made within 15 days after the 30-day payment period, interest is automatically calculated and paid on overdue supplier accounts, unless specifically exempted. Interest has been paid in accordance with the PODD policy for the past five years.

2.129 Ranked in terms of the amount of interest paid, NHW is the third-highest of all federal departments, accounting for approximately 10 percent of the total interest cost. The Department is also third-highest on the basis of the percentage of invoices paid after 45 days.

2.130 **Issue.** Under PODD some $500 million of NHW's expenditures for goods and services could attract interest charges if paid late. Of this amount, $300 million relates to non-insured health benefits (NIHB) – health-related goods and services provided by the Department to status Indians and to Inuit. The current level of interest paid indicates that roughly 20 percent of payments – $100 million – are made more than 45 days after the invoice is received.

2.131 We were able to identify the branches and locations where significant interest costs were incurred. We then tested a sample of transactions that had given rise to interest charges during 1990-91, in an effort to identify the underlying causes of late payments.

2.132 In some cases, procedures for the verification and payment of invoices led to delays; in other cases, staff was insufficient to process the volume of transactions. Late payments were most commonly related to drug invoices received from pharmacies, and to invoices associated with other high-volume, non-insured health benefits. Two thirds of the 1990-91 interest cost resulted from late payment of NIHB invoices by regional offices across the country. The proportion of late payments related to NIHB has increased over time.

2.133 For the last three years, we have monitored the Department's high interest costs and discussed our concerns with NHW officials. Each year, we have been told that procedural problems have been identified and corrective action taken. However, interest costs have still exceeded $650,000 for each of the last three years. Management attributes this to the increased volume of NIHB invoices and the impact of interest rate fluctuations.

2.134 The Department's response to the NIHB problem has been to contract out the verification and payment of these invoices to private sector firms. This was effected for dental services in 1987 and will be completed for pharmacy services in 1992. Under these arrangements, the Department is not liable for any interest costs incurred by the contractor.

2.135 Most of the remaining one third of interest costs can be traced to the processing of other commercial-supplier accounts by the Department's accounting unit in Ottawa. There was a marked improvement in performance during the past year, and a new invoice tracking and monitoring system is to be operational in October 1991. The Department believes that the reporting of late processing to the responsible parties, via the assistant deputy ministers, will reduce these interest costs to an acceptable level.

2.136 We were informed that, due to the initiatives noted above, a gradual decrease in interest costs can be expected to begin in 1991-92. Department managers emphasized, however, that this planned decrease will also be affected by interest rates in effect during the year, a variable that they cannot control.

2.137 Conclusion. Management at the Department of National Health and Welfare has so far been unsuccessful in reducing the amount of interest paid on overdue accounts to a reasonable level. Appropriate attention to this issue could enhance relations with the Department's suppliers, and should achieve a substantial – not gradual – reduction in its interest costs. Non-productive interest payments could instead be turned into money available for program purposes.

Department Of National Health And Welfare

There is significant overpayment and underpayment of benefits each year in the Department's Guaranteed Income Supplement program

> *An application process based on self-declaration of income, coupled with inadequate procedures for the assessment and verification of entitlement, results each year in significant overpayment and underpayment of Guaranteed Income Supplement benefits. The Department estimates that overpayments and underpayments were as high as $66 million and $22 million respectively in 1990-91. Many of these payments could be identified and corrected with the timely implementation of current initiatives.*

2.138 Background. The Department of National Health and Welfare is responsible for matters related to promoting and preserving the health, social security and social welfare of all Canadians. The Income Security Programs Branch of the Department administers a number of programs designed to help Canadians maintain and improve their income security. One of these is the Guaranteed Income Supplement (GIS), which provides payments to Old Age Security recipients on the basis of their income. The Spouse's Allowance complements the GIS by extending the supplement to spouses of pensioners and to widows and widowers aged 60 to 64. The following references to GIS include Spouse's Allowance payments and recipients.

2.139 The GIS is a substantial pension expense. In 1990-91, some 1.5 million recipients received payments totalling $4.5 billion. The maximum annual benefit paid to a single pensioner in that year was $5,000. The supplement is reduced by one dollar for every two dollars of income; therefore, a pensioner with annual income in excess of $10,000 is not entitled to receive any supplement. The GIS entitlement is added to the Old Age Security pension amount and paid monthly.

2.140 Pensioners must apply for the supplement annually. An application stating the previously declared income, broken down into nine categories, is mailed to recipients in January, requesting the pensioner to update the income information. Most applications are returned by March. Generally the supplement entitlement is determined based on the previous year's income as declared by the applicant.

2.141 Issue. The Department can review the reasonableness of declared income at the time of application approval, but we found that the rigour of this review varied from region to region and even within regions. Different supervisors set varying levels and extents of income review. The result is that year-to-year income variances may be scrutinized quite closely, or not at all. A more uniform and rigourous review of declared income at the time of initial assessment could limit the size of overpayments and underpayments.

2.142 The Department is authorized by the Old Age Security Act to obtain income information for GIS recipients and their spouses from the Minister of National Revenue, and the annual application requires a signed acknowledgement to that effect. A GIS recipient's income, as declared on the application, is matched with the income assessed on the income tax return. The most commonly under-reported income relates to interest and dividends.

2.143 The coverage of this matching, however, is limited to only 750,000, or one half, of those receiving supplement payments. The other half are not matched because they do not have or provide a social insurance number, do not file an income tax return, or file late, after the matching has been done.

2.144 Of the 750,000 recipients whose income declaration is matched with the tax records, the Department investigates all income variances exceeding a predetermined amount. In 1990-91 more than 70,000 accounts were investigated; overpayments of $13.4 million and underpayments of $4.7 million were identified. Over the last five years, the Department has identified overpayments totalling $51 million and underpayments of $17 million. There has been a fairly consistent three-to-one ratio of overpayments to underpayments over this period.

2.145 In addition to the recipient accounts that have not been matched and those with no income variance, there is also no investigation of the roughly 500,000 accounts with variances smaller than the predetermined amount. Overall, only five percent of the total GIS accounts are subject to detailed income verification. We are of the view that a large number of overpayments and underpayments consequently remain undetected. The Department has referred to the current extent of verification as only the tip of the iceberg.

2.146 The Department estimates that the value of all overpayments in 1990-91 alone was in the range of $35 million to $66 million. Using the three-to-one ratio, underpayments in the same period would have been between $12 million and $22 million.

2.147 The Department recognizes the significant net cost of these overpayments and underpayments and is involved in two initiatives to improve the effectiveness of income verification. One is a cost-benefit review of the predetermined amount used to indicate when detailed investigation is warranted. The second is an effort to increase the number of recipient accounts subject to the match with income tax records.

2.148 The Department also recognizes the negative impact on client satisfaction that can result from the payment and subsequent adjustment of incorrect benefit amounts. The initiatives it is taking will aid in the detection of overpayments and underpayments, but will not prevent their occurring in the first place. Overpayments and underpayments will remain a problem so long as entitlement is based on self-declaration of income.

2.149 **Conclusion.** The Department does not have adequate procedures to minimize these incorrect payments at the time of application approval. As a result, some eligible Canadians are not receiving the pension supplement to which they are entitled under the legislation. With the timely implementation of its current initiatives, the Department could identify and investigate additional overpayments of up to $30 million and underpayments of up to $10 million annually.

Department of National Health and Welfare

$489 million overpayment to provinces resulted from failure to properly estimate advance contributions payable under the Canada Assistance Plan

> *The Department of National Health and Welfare did not take into account the limitation imposed by the Government Expenditures Restraint Act in estimating the advance payments due to certain provinces in respect of the Canada Assistance Plan. Contributions for fiscal year 1990-91 made under the Canada Assistance Plan to the three provinces affected by the Act exceeded the limit of five percent over 1989-90 expenditures imposed by Parliament; a $489 million overpayment resulted.*

2.150 **Background.** The Canada Assistance Plan was enacted in 1966. It authorizes the Government of Canada to enter into agreements with provincial governments for the payment of contributions that match provincial expenditures on social assistance and welfare services, as defined in the Plan. Section 5 of the Plan authorizes payments to the provinces pursuant to such agreements.

Regulations pursuant to the Plan provide for the timing and method of claiming contributions and paying advances on them. Provinces may continue to submit claims for a period of one year after the fiscal year to which they relate, or such longer period of time as the Minister may permit. The Department of National Health and Welfare is responsible for authorizing payment of these contributions, or advances, out of the Consolidated Revenue Fund. In 1990-91 payments to all provinces amounted to $5.9 billion.

2.151 In February 1990 the federal government announced expenditure measures intended to reduce the federal budget deficit. One feature of the government's expenditure control plan was a limitation on the growth of the payments made under Section 5 of the Canada Assistance Plan to financially stronger provinces. Such payments were to increase by no more than five percent per annum for fiscal years 1990-91 and 1991-92. The provinces affected are those that are not entitled to receive equalization payments from the government -- currently, British Columbia, Alberta, and Ontario. This change was embodied in Bill C-69, introduced in the House of Commons on 15 March 1990.

2.152 Shortly before Bill C-69 was introduced in Parliament, the Province of British Columbia asked the British Columbia Court of Appeal whether the Government of Canada had any authority to limit its obligations under the Canada Assistance Plan, and whether the terms of the Agreement pursuant to the Plan between the Governments of Canada and British Columbia gave rise to a legitimate expectation that the Government of Canada would not seek to limit its obligations under that Agreement without the consent of British Columbia. In June 1990 the Court, in answering these questions in favour of the Province, decided that the provinces had a right to expect that the federal government would not take unilateral action. The federal government appealed the findings of the British Columbia Court of Appeal to the Supreme Court of Canada. The federal Minister of Justice indicated publicly that Canada would abide by the spirit of the B.C. decision, pending the appeal to the Supreme Court.

2.153 The appeal was heard in December 1990. Department officials informed us that although Bill C-69 had proceeded through the legislative process in the House of Commons before the Supreme Court hearing, amendments had been prepared to be tabled when the Bill was considered in the Senate, which would have allowed for a separate coming-into-force provision for the amendments to the Canada Assistance Plan. However, Bill C-69 passed through the Senate without these amendments being included, and the legislation was given Royal Assent on 1 February 1991. Following Royal Assent, the Minister of Justice wrote to the Attorney General of British Columbia stating that, pending the Supreme Court of Canada ruling on the matter, payments would occur in the normal fashion subject to any adjustments that would be required as a result of that decision. In the Minister's view, there was no legal impediment to this arrangement.

2.154 The decision of the Supreme Court of Canada was rendered on 15 August 1991. It reversed the decision of the British Columbia Court of Appeal and found that Canada did have the right to limit, by legislative amendment, the amount of money payable under the Canada Assistance Plan.

2.155 **Issue.** The *Government Expenditures Restraint Act* obliged the federal government to ensure that the payments to the provinces affected did not exceed the limit of five percent over 1989-90 contributions. After receiving advice from the Department of Justice, the Department of National Health and Welfare continued to make payments after Bill C-69 received Royal Assent, exceeding the limit imposed in the Bill through the amendments to the Plan.

2.156 Department officials advised us that, in addition to the issue of the legality of the restrictions imposed by Bill C-69 being before the Supreme Court of Canada, that at that time (February 1991), the figures for 1989-90 had not yet been finalized. It was therefore not possible to say with certainty what the ceiling on 1990-91 contributions would be. As well, they pointed to the Regulations, which allow the adjustment of accounts for a period of time after the end of the fiscal year and provide for recovery of any overpayments against future payments. Department officials further advised us that it was their intention, and remains their intention, to recover any overpayments through this process.

2.157 Although the 1989-90 base year amounts may not yet be finalized, the Regulations pursuant to the Canada Assistance Plan require that, with respect to the payment of monthly advances under the Plan, the Minister may pay each month only one twelfth of the most recent estimate of the contribution to which a province is entitled for that year. In February 1991 following the enactment of Bill C-69, the Department prepared an analysis based on its current estimate of 1989-90 contributions. It indicated that 1990-91 contributions had already exceeded the five percent limit by $173 million. Nevertheless, the Department continued to make payments and the excess contribution for that fiscal year to 15 August 1991 amounted, in total, to an estimated $489 million. In our view, the February 1991 analysis constituted a sufficiently reasonable estimate to enable the Department to adjust monthly payments to certain provinces, in accordance with the *Government Expenditures Restraint Act*.

2.158 **Conclusion.** With the passage of the *Government Expenditures Restraint Act*, there was a requirement for the Department to ensure that contributions did not exceed the legislated limit. However, the Department's interpretation of the legislation was that, until 1989-90 expenditures were finalized and pending the decision of the Supreme Court of Canada, no limitation on contributions payable should be imposed. Consequently, the Department made payments of $489 million that were in contravention of the Canada Assistance Plan. This overpayment resulted in an interest-free advance to the provinces concerned, and the government's 1990-91 expenditures were not reduced as intended.

Department of National Revenue - Taxation

Concerns about specific matters related to the administration of the *Income Tax Act*

2.159 Reported below are a number of specific matters related to the Department of National Revenue - Taxation's administration of the *Income Tax Act*. They should not be used as a basis for drawing wider conclusions about matters we did not examine.

> **Certain issues have not been resolved in a timely manner. Two significant issues involving the insurance industry were under review for a long period of time.**

2.160 **Background – Disposition of investments in the insurance industry.** For the past twenty years, insurance companies have generally enjoyed capital gains treatment on the gains and losses from the disposition of their investments. In the insurance business the amount of risk assumed always exceeds premium income and usually exceeds the total assets of the company. It is argued that investments support underwriting and therefore form part of an insurer's ordinary business. For other taxpayers, gains or losses on investments that are part of ordinary business activities do not, as a general rule, enjoy capital gains treatment.

2.161 In 1983, as a result of a Federal Court (Trial Division) decision, the Department of National Revenue - Taxation (NRT) decided that it should review whether it could treat such gains by insurance companies as income instead of capital gains.

2.162 **Issue.** It took until December 1990 for NRT to conclude that an insurance company's gains or losses on investments that are part of ordinary business activities should not, as a general rule, enjoy capital gains treatment.

2.163 **Background – Insurance funds.** To gain a tax advantage, a few corporations have set up employee insurance plans having higher policy premiums than are required. The excess premiums not needed to pay claims and the interest thereon accumulate tax-free. This arrangement enables the corporation to deduct the excess premiums and the insurer to deduct the interest paid on them.

2.164 One fund we looked at had assets valued at over $125 million. Using a federal and provincial income tax rate of 50 percent, the corporation's reduction in taxes otherwise payable would be about $63 million. The Department of National Revenue - Taxation has protected its ability to reassess for certain of the taxation years involved.

2.165 Legislative amendments were made in 1987 to stop this type of abuse.

2.166 **Issue.** The Department of National Revenue - Taxation has been reviewing this issue since 1984.

Department's response – Disposition of investments in the insurance industry. *A review of the taxability of the proceeds on disposition of investments by the insurance industry commenced in July 1987 and ultimately recommended that in some cases the gains (or losses) should be considered on account of income, rather than capital, and be included in income. Note this relates to investments other than Canada Securities which are dealt with specifically in the* *Income Tax Act* *and are required to be included in income on disposition.*

The scheme of the *Income Tax Act* *for life insurance companies provided for the inclusion in income of gains or losses on the disposition of Canada Securities. Also, "gross investment revenue" of an insurer is defined and does not include gains on disposition of investments. The industry self assessed on the basis that proceeds of investment, other than Canada Securities, were on account of capital. It was assumed that investments are generally held for lengthy periods of time and that the insurer does not deal in the investments in the ordinary course of business. Also, Parliament appeared to be specific as to which investments, Canada Securities, were to be taxed on income account.*

With respect to the issue of the character of proceeds of investments, income or capital, the review conducted by the Department involved consultations with the insurance industry who made extensive representations on the issue. In December 1990 the insurance industry was advised that generally gains or losses arising on the disposition of property would be considered on account of income. However, depending upon the facts, a company can take the position that it is on account of capital and these cases will be examined.

Whether proceeds on disposition of investments are on account of capital or income is a question of fact and law in each particular case. Although the Department has advised it is of the view that in most cases they are on account of income, ultimately the Courts may decide in particular cases.

This review was conducted at the same time as tax reform, which pointed out that deficiencies in the rules pertaining to major life insurance companies permitted the major companies to avoid taxation in Canada which was corrected by changes in legislation.

Given the income tax structure prior to tax reform any inclusion of gains or losses would have been nullified by the rules in force at the time.

Department's response – Insurance funds. *This is a most complex matter which has been the subject of extensive review, legal analysis, and representations have been made that are ongoing. The parties, the contributor and the insurer, dispute that they have access to the employee benefit funds and are therefore not taxable. With respect to years prior to 1987 the Department has protected its position and may issue assessments. It is expected this matter will be brought to an early conclusion and it may have to be resolved by the Courts. In the meantime a legislative amendment in 1987 has prevented recurrences.*

Certain assessing procedures need improvement. Assessing procedures have not been sufficient to secure an effective check on the right of taxpayers

to claim Northern Tax Benefits and Political Contributions Tax Credits.

2.167 Background – Northern Tax Benefits. The *Income Tax Act* provides for a special deduction for employee travel benefits and living costs of individuals residing in certain northern or isolated regions.

2.168 When the measure was introduced in February 1986, the Department of Finance estimated that the annual cost in foregone federal income tax revenue would be about $130 million for the 1989 taxation year. We were advised that the costs for the 1989 taxation year were double the original estimate or approximately $260 million (about $1 billion in deductions at an estimated federal tax rate of 26 percent).

2.169 The Department of National Revenue - Taxation operates a compliance program of post assessing. Certain initially accepted claims for deductions, exemptions or credits are selected for a secondary review – comparing prior year returns or seeking additional information from taxpayers.

2.170 Claims for Northern Tax Benefits for the 1987 and 1988 taxation years were subjected to a limited review during the initial assessment process; a limited number of claims were later subjected to post assessing activities, using about 11,000 direct person-hours annually and producing additional federal and provincial income taxes of about $5.4 million for 1987 and $5.1 million for 1988. This represented a recovery of taxes of about $500 per direct person-hour of post assessing.

2.171 Issue. The Department of National Revenue - Taxation advised us that resource constraints had precluded post assessing of 1989 taxation year claims. In light of this, we find that NRT was unable to apply sufficient procedures for the 1989 taxation year to secure an effective check on the right of taxpayers to claim Northern Tax Benefits.

2.172 Background – Political contributions tax credit. Contributions to federally registered political parties and to officially nominated candidates for election to the House of Commons can yield a maximum federal tax credit of $500. In 1988 the program's estimated cost was $18.6 million in federal tax credits.

2.173 Issue. A key legislative control is the requirement that a taxpayer file a receipt with an income tax return to claim the federal tax credit. Although NRT does examine receipts filed with income tax returns, it does not have an appropriate audit program to verify their validity. As a result, in our view procedures have not been sufficient to secure an effective check on the right of taxpayers to claim federal tax credits for political contributions.

2.174 The legislation limits tax support to federally registered political parties and officially nominated candidates in federal elections. However, the law permits money to be channelled through registered parties to candidates in provincial or municipal elections or to others.

2.175 In addition, reporting to the Chief Electoral Officer has not been done in accordance with the law. The *Income Tax Act* requires NRT to periodically forward a report to the Chief Electoral Officer setting out the aggregate of amounts contributed to each registered party and to each candidate in a federal election. Instead, NRT has been reporting the aggregate of amounts contributed to all candidates belonging to each of the various parties.

Department's response – Northern Tax Benefits. *The Department has to balance its activities in compliance verification taking into account the risk of non-compliance and the resources available. Initial and post assessing verification checks were carried out in 1987 and 1988 with respect to Northern Tax Benefits claimed. In 1989 initial assessing verifications checks were performed as well as a review program based on computer selection. The computer-generated selection, which is based on a number of comparisons, indicated a reduced risk of non-compliance in this area in 1989. As a result, enforcement resources were deployed to other activities.*

Department's response - Political contributions tax credit. *The Department ensures that the political contributions tax credit is properly supported by a tax receipt filed with the income tax return and is satisfied that this is a sufficient check on the appropriateness of the claim. Any indication that the receipts are improper or invalid will be followed up vigorously. The Income Tax Act provides for this tax credit based on a contribution to federally registered political parties and officially nominated candidates in federal elections. The intention is that funds contributed to federally registered parties or to officially nominated candidates are for federal elections; however, there are no specific restrictions in the Income Tax Act on the disbursement of these moneys. The Department has brought this to the attention of the Chief Electoral Officer and the Royal Commission on Electoral Reform.*

The information that political parties must provide to both Revenue Canada, Taxation and the Chief Electoral Officer is identical in many respects. As a result, this Department has had ongoing discussions with Elections Canada officials concerning the reporting and filing requirements for political parties and candidates for election. These matters are still under active consideration by this Department. In the meantime, the Department will continue to submit reports to the Chief Electoral Officer as described and required under subsection 230.1(4) of the Income Tax Act.

Department of the Secretary of State

Excess Canada student loan amounts awarded in 1989-90 could cost taxpayers an estimated $39 million

> *The results of our statistical sample, covering five provinces for the loan year 1989-90, indicate that as many as 47,000 full-time students received Canada student loans that exceeded, by $72 million, the amounts to which they were entitled. The lack of legislative and administrative provisions to identify and recover those excess amounts could result in a cost to the taxpayers that we estimate could be approximately $39 million.*

2.176 **Background.** Under the *Canada Student Loans Act*, the federal government guarantees loans made by lending institutions to students who have been issued a Certificate of Eligibility by a participating province or territory. The provinces combine the Canada Student Loans Program with their own programs of loans, grants and scholarships. They assess student applications and approve federal loans according to an official administrative agreement with the Department of the Secretary of State.

2.177 The amount of a loan, grant and/or scholarship depends on a student's educational fees, living expenses, and financial resources, including support from a spouse or parents where applicable. The student, spouse, and parents are required to sign an approval form for release of tax information, thereby allowing the province to verify all income data relating to the loan application.

2.178 Canada student loans are given to approximately one third of full-time students registered in universities and community colleges throughout Canada except in Quebec and the Northwest Territories, which have opted for alternative payments and manage their own programs. In 1989-90, for the five provinces selected, 173,000 full-time students received guaranteed loans totalling $466 million.

2.179 The interest on a Canada student loan is paid by the Department of the Secretary of State so long as the student continues to attend school, and for six months after the completion of studies. The Canada Student Loans Program also provides for an additional 18-month interest-free period, should the borrower be unemployed or unable to work because of illness or incapacity.

2.180 We conducted a value-for-money audit of the Canada Student Loans Program in fiscal year 1989-90. Part of our audit focussed on compliance with the legislative and administrative requirements dealing with criteria used to assess the financial needs of full-time students. We reported in 1990 (paragraph 29.76) that neither the *Canada Student Loans Act* nor the federal-provincial agreement requires provinces to identify and recover excess amounts in Canada student loans. Provinces do, however, recover excess provincial grants and loans.

2.181 Our audit objective this year was to determine, for loan year 1989-90 in the five provinces selected, the extent of excess loan amounts resulting from understatement or misrepresentation of financial resources by students at the time of their loan applications, and the consequent costs to taxpayers.

2.182 From a statistical sample of 408 students in the five provinces, our audit disclosed that 111 students (27 percent of our sample) understated or misrepresented their financial situation or did not, as per the terms and conditions on the loan application, advise the province of any increase in their resources.

2.183 **Issue.** Applying the results of our statistical sample to the total population of 173,000 for the five provinces indicates that, in 1989-90, as many as 47,000 full-time students received Canada student loans of approximately $72 million in excess of the amounts to which they were entitled. Although we believe that similar results existed in previous years, our audit was limited to 1989-90 due to the cost and difficulty of obtaining the necessary information.

2.184 The cost to taxpayers for each dollar of loan guaranteed by the Department in that year is estimated at 54 cents. This unit cost includes payments to lenders for interest and claims for default, alternative payments to Quebec and the Northwest Territories, collection costs, and other program costs. On this basis we estimate that awarding the excess Canada student loan amounts in 1989-90 could cost approximately $39 million.

2.185 In our opinion, there is an urgent need, without infringing on the rights of individuals who are entitled to loans, to:

- seek revision of the *Canada Student Loans Act* and provide regulations with respect to the recovery of loans in excess of need;
- review the administrative agreement with the provinces to clarify provincial responsibility for identifying and recovering excess amounts related to Canada student loans; and
- implement proper mechanisms to monitor compliance with these revisions.

Department's response: *We agree. The Department is working with its legal advisors and the provinces to implement the necessary legal and administrative changes, and consequently, will improve internal control mechanisms.*

Department of Transport

Limited consideration of risk in entering into a land-lease agreement

The Department of Transport entered into a land-lease agreement in 1988 without adequately considering the risks related to the feasibility and financial viability of the proposed use of the land. As a result, expected revenues may not be realized and/or additional costs may be incurred.

2.186 **Background.** In 1987, as part of its ongoing efforts to commercialize operations at airports, the Department of Transport called for tenders to lease land for the construction and operation of major hotels at five airports across Canada (Vancouver, Regina, Ottawa, Dorval and Halifax). Pursuant to the call for tenders, the only valid bid received was for developing a hotel at Halifax International Airport.

2.187 In October 1988 the Department entered into a 41-year land lease agreement with the developer for the construction, maintenance and operation of a $20 million hotel at the airport. The agreement specified that, for the first year, the Department would receive only land rental and an airport maintenance charge; for the remainder of the lease, it would receive five percent of the annual gross revenue or an annual minimum guarantee, whichever were greater. The minimum guarantee for the second to the sixth year would total $750,000 for the five-year period.

2.188 Construction by a general contractor was to begin in May 1989; it eventually started in May 1990. In December 1990 the general contractor stopped construction and filed a lawsuit against the developer for non-payment of $3.5 million of the $4.5 million expended to that date. Construction has not resumed. As of 31 August 1991, the developer was up-to-date in payments to the Department for the land rental and airport maintenance charge.

2.189 **Issues.** Prior to entering into the lease agreement in October 1988, the Department:

- did not ensure that the developer had done a study to determine the feasibility of having a hotel at Halifax International Airport and did not update one done 12 years earlier by a firm of consultants at the request of the Department. To not undertake a feasibility study was contrary to its own standards. In 1989, the Department re-emphasized the need for feasibility studies.
- did not ensure that its concerns at the time of an earlier bid, in 1984, were no longer valid. Some of those concerns related to the financial viability of the project and its possible impact on off-airport competitors, including a hotel situated adjacent to the airport that had previously received federal financing for its development.
- did not assess the financial viability of the project or adequately challenge the assumptions and information supplied by the developer in his forecast statement of operations. For example, the developer stated that he was using below-market rates for the first three years of operations, i.e. three percent mortgage financing. In addition, the Department did not obtain a forecast statement of operations that was based on payment terms specified in the lease agreement.
- did not obtain a letter from a surety or guarantee company indicating that a surety bond for 50 percent or more of the total contract price, as required under the terms and conditions of the draft lease, would be provided on notice of award of the lease.
- did not obtain adequate assurances that financing had been or would be arranged.

2.190 The lease agreement was amended in May 1990 due to construction delays. Before amending the lease and allowing construction to start, the Department again did not ensure that the developer had secured financing for the project.

2.191 The lease agreement and the amendment received ministerial, Treasury Board and Governor in Council approval. The information submitted by departmental officials for the approval of the amendment indicated that the Atlantic Canada Opportunities Agency would not grant financing to the developer because of changes in the Agency's funding criteria. However, the reason the Agency had given the Department was that an increase in the supply of accommodation units was not warranted and that, in its opinion, the proposed hotel would have a significant adverse impact on the existing hotel market. The Agency's reason for rejecting the developer's application was the same as one of the reasons the Department gave in 1984 when it rejected the developer's earlier proposal to build the hotel.

2.192 Additional concerns are that the Department:

- obtained surety bonds from the general contractor but failed to obtain them from the developer, leaving only a $100,000 security deposit from the developer as protection in the event of non-performance.
- did not include in the lease agreement a penalty clause in relation to any unreasonable delay in completing the construction of the hotel.

2.193 We were advised by the developer on 2 October 1991 that he had a feasibility study carried out, which was completed on 3 October 1988.

2.194 **Conclusion.** The Department did not adequately consider the risks related to the feasibility and financial viability of a project involving the construction of a major structure. As a result, expected revenues may not be realized due to delays in the start of hotel operations, and/or additional costs may be incurred to deal with the partially completed structure, if the lease is terminated.

Department's response: *The OAG report suggests that actions of the Department have placed the Crown at risk. The major portion of risk, in this situation, has been borne by the Lessee. The Department chose to rely on the assessment of risk by the industry, as the Lessee, not the Department, was investing the risk capital in the development. By pursuing this project in the manner that it did, the Department has received rent for over a year, and it continues to collect monthly payments on the current annual $100,000 minimum guarantee. The Department also holds $100,000 in cash as security.*

While the Department did not obtain a letter from a surety or guarantee company on notice of award of lease, the Department did obtain the required surety bonds prior to any construction on the leased land. In addition, the bonds taken out were for more than 50 percent of the total contract price.

The Department acknowledges that a Lessee's bond or similar guarantee would lessen the Crown's risk and is presently studying this option. However, the Department is concerned that attempts to further reduce the risk associated with commercial ventures may result in no new commercial development at almost all Transport Canada Airports. Had the Department insisted on a guarantee inconsistent with industry practices it is unlikely that the Hotel Project would ever have proceeded. It is difficult to understand how the Crown or local industry would benefit from such a situation.

It was interesting to note that the 1990 OAG Annual Report recognized the "fast-paced, highly commercial" environment of airports, the need for "flexible decision making" and a commercial-oriented management approach. Progress, in the commercial world, implies some degree of risk taking. This OAG audit note, in Transport Canada's view, implies an excessive elimination of risk taking.

Office of the Superintendent of Financial Institutions

Earlier billing of financial institutions for the cost of supervision and regulation could save the federal government at least $1 million annually

> *The Office of the Superintendent of Financial Institutions (OSFI) recovered $36 million, or 92 percent of its total expenses, from the financial institutions it supervised in 1989-90. However, the interim and final billings for its expenses are not sent until after the end of the fiscal year, even though the Office of the Superintendent of Financial Institutions Act allows OSFI to prepare an interim assessment during the fiscal year. As a result of OSFI's not preparing the interim assessment during the fiscal year, based on estimates of expenses, and not billing the financial institutions, the federal government's interest costs are increased by at least $1 million per year. If OSFI sent interim billings on a quarterly basis during the fiscal year, interest savings could be doubled. Further savings could be achieved if interim billings were sent more frequently.*

2.195 **Background.** Under its Act, OSFI is required to determine by 31 December of each year the total expenses it incurred during the fiscal year immediately preceding, in connection with administering the various Acts for which it is responsible. The expenses are then allocated among financial institutions and recovered from them, based on formulas specified in the legislation and regulations. The total expenses incurred by OSFI for 1989-90 were $39 million, of which $36 million, or 92 percent, was recovered from the financial institutions. The balance of its expenses, for providing actuarial services and administering certain government pension plans, was not recoverable.

2.196 In our 1986 Report, we recommended that the Department of Insurance adopt the practice of billing all recoverable costs as they are incurred. In 1987 OSFI was created as an amalgamation of the Department of Insurance and the Office of the Inspector General of Banks. The enabling legislation allows OSFI to prepare an interim assessment for each institution. In our 1988 follow-up we noted that OSFI had commenced sending interim billings. At present, it sends the interim billings – 75 percent of the estimated final expenses – to the institutions in May of the year immediately following the related fiscal year. The final billings are sent in September of that year.

2.197 The Office of the Superintendent of Financial Institutions receives interest-free advances from the Consolidated Revenue Fund to defray its operating expenses. If it were to send interim billings to financial institutions early in the related fiscal year, the need for advances from the Consolidated Revenue Fund would be substantially reduced, thereby resulting in interest savings to the federal government.

2.198 **Issue**. The present practice of sending the interim billings after the end of the related fiscal year results in interest costs to the federal government. We estimate that by not sending interim billings in September of the fiscal year – say, 50 percent of the estimated final expenses – and the final billings in September of the next year, the interest costs to the federal government were increased by approximately $1 million in fiscal year 1989-90 (using average 90-day Treasury Bill rates). Furthermore, if OSFI sent interim billings on a quarterly basis during the fiscal year to which the expenses related, the savings in interest costs could be doubled without any substantial increase in administration costs. The Office of the Superintendent of Financial Institutions has advised us that it is now considering a system of monthly interim billings to financial institutions, starting in fiscal year 1992-93.

Chapter 3

Follow-up of Recommendations in Previous Reports

Follow-up of Recommendations in Previous Reports

Main Points

3.1 Overall, progress is being made in taking corrective action in response to deficiencies noted in previous Reports.

3.2 **Department of Energy, Mines and Resources - The Management of Federal-Provincial Contribution Programs** - Our follow-up indicates an overall improvement in the federal administration of the Nova Scotia Development Fund and the Newfoundland Offshore Development Fund (paragraphs 3.34 to 3.55).

3.3 **The Management and Use of Telecommunications in the Federal Government** - Government Telecommunications Agency (GTA) has been designated as a Special Operating Agency. Steps have been taken to establish Information Technology Standards ensuring compatibility of the networks and portability of applications. GTA estimates a saving of $13 million to $15 million in 1991-92 (3.92 to 3.97).

3.4 **Department of External Affairs - Consular Services** - The Department is making headway in implementing the 1989 recommendations. For example, a major consular awareness program that addresses our concerns has been developed and launched. However, efforts initiated at headquarters to respond to our recommendation on the need for a better definition of the range and extent of consular services will have to be carried through at the missions. It is anticipated that all our recommendations will be fully implemented by 31 March 1992 (3.106 to 3.118).

3.5 **Department of National Health and Welfare - Canada Assistance Plan** - Monitoring and verification of provincial compliance with the CAP Act has improved, but information to Parliament in the Estimates and the annual reports is still not adequate (3.131 to 3.139).

3.6 **Department of Transport - Canadian Coast Guard - Protecting Mariners' and Public's Interest** - There has been progress in some areas, but much remains to be done to fully deal with our observations and recommendations to improve the safety of mariners and the public (3.161 to 3.167).

3.7 **Department of Transport - Canadian Coast Guard - Fleet Management, Aids to Navigation and Icebreaking** - The Coast Guard has done some analysis of its navigational aids fleet requirements and is downsizing as a result. We are concerned about the length of time it is taking to address our observations and recommendations regarding the icebreaking fleet and maintenance (3.168 to 3.177).

Main Points (cont'd)

3.8. Canada Employment and Immigration Commission - The Unemployment Insurance Account - CEIC has taken several measures that satisfactorily respond to our observations and recommendations, and has recently developed and implemented other corrective measures, which will be the subject of a future audit or follow-up. The Commission has selected performance indicators for the Claimant Re-employment Strategy for 1991-92, but only after they have been implemented will we be able to assess actual progress in the re-employment of UI claimants (3.178 to 3.190).

Table of Contents

	Paragraph
Introduction	3.9
Special Audit - Microcomputer Study - 1987, Chapter 15	3.19
Department of Energy, Mines and Resources - The Management of Federal-Provincial Contribution Programs - 1988, Chapter 10	3.34
Department of Finance - Management of the Borrowing Program - 1988, Chapter 11	3.56
Department of Fisheries and Oceans - Atlantic Operations, Inspection and Corporate Functions - 1988, Chapter 13	3.65
Efficiency - The Management and Use of Telecommunications in the Federal Government - 1989, Chapter 7	3.92
Department of the Environment - Canadian Parks Service 1989, Chapter 11	3.98
Department of External Affairs - Consular Services 1989, Chapter 12	3.106
Department of Finance - The Management of Foreign Exchange Operations - 1989, Chapter 13	3.119
Department of Finance - Tax Collection Agreements 1989, Chapter 14	3.126
Department of National Health and Welfare - Canada Assistance Plan - 1989, Chapter 15	3.131
Quality Assurance - 1989, Chapter 16	3.140
Department of National Revenue - Customs and Excise Excise - 1989, Chapter 18	3.147
Department of National Revenue - Taxation - 1989, Chapter 19	3.149
Statistics Canada - 1989, Chapter 20	3.158
Department of Transport - Canadian Coast Guard - Protecting Mariners' and Public's Interest - 1989, Chapter 22	3.161

Table of Contents (cont'd)

	Paragraph
Department of Transport - Canadian Coast Guard - Fleet Management, Aids to Navigation and Icebreaking 1989, Chapter 23	3.168
Canada Employment and Immigration Commission and Unemployment Insurance Account - 1988, Chapter 18 and 1989, Chapter 24	3.178

Follow-up of Recommendations in Previous Reports

Introduction

3.9 Overall, departments have taken action to correct deficiencies, but progress still tends to be slow in some areas.

3.10 Follow-up generally is done two years after the original audit chapter appears in the annual Report. This year, however, follow-up work on two 1989 chapters was cancelled, and deferred on five others.

3.11 Follow-up on the 1989 Incentive Award Plan audit was cancelled because the issues were satisfactorily followed up in our 1990 Chapter - Efficiency in Government: A Special Study.

3.12 As noted in paragraphs 3.147 and 3.148, the follow-up on our 1989 audit of Customs and Excise has been cancelled because the subject of our audit, the federal sales tax, has been replaced by the goods and services tax.

3.13 A chapter on Emergency Preparedness is planned for the 1993 Report. Therefore, follow-up on the 1989 special audit of Emergency Preparedness Canada will be incorporated into that Report.

3.14 Our second follow-up on the 1987 audit of the Management Category has been deferred, given that Public Service 2000 recommendations and the most recent budget decisions affecting the Management Category are in the process of being implemented.

3.15 Follow-up on the 1989 audit of Elections Canada has been deferred until 1992, to allow the newly appointed Chief Electoral Officer time to determine an appropriate course of action and continue implementation activity on the recommendations.

3.16 The follow-up on the 1989 audit of the Federal Regulatory Review Process has been postponed until 1993 to allow time to address the recommendations and the results of discussions with the Standing Joint Committee for the Scrutiny of Regulations.

3.17 The issues raised during the 1989 special audit of Courier Services are now being addressed as part of a wider set of purchasing issues. Follow-up on this audit has therefore been deferred.

3.18 Follow-up on the 1988 and 1989 chapters on the Department of Supply and Services is reported in Chapter 18 - Department of Supply and Services - Management of the Government Procurement Service, and Chapter 19 - Department of Supply and Services - Government Procurement and Industrial Development.

Special Audit - Microcomputer Study - 1987, Chapter 15

Background

3.19 Our 1987 special study of the government's use and management of microcomputers examined whether departments were realizing the benefits that had been projected, and if they were controlling the risks inherent in acquiring and using microcomputers. We did a preliminary follow-up in 1989, but there was so much evaluation and policy development effort under way that the detailed follow-up was postponed until 1991.

3.20 Five organizations were involved in the 1987 study:

- Department of Agriculture;
- Department of National Revenue - Customs and Excise;

- Department of Energy, Mines and Resources;
- Statistics Canada; and
- Department of Transport.

3.21 We made six recommendations related to planning, cost-benefits, training, software and security.

3.22 The 1991 follow-up examined the same organizations, plus the Department of the Environment. As in 1987, we consulted Treasury Board Secretariat and the Department of Supply and Services on policy and acquisition issues.

Conclusions

3.23 Because the universe of microcomputers has changed considerably since 1987, the current approach of merely applying technology to the delivery of government programs is no longer adequate. Supplying technology and teaching its basic use must be augmented by teaching public servants how to apply it to improve their productivity. Experts in the field predict that the impact of microcomputers will extend far beyond that originally foreseen for stand-alone personal computers. The possibility exists that, in the near future, powerful microcomputers in conjunction with networks and servers could supplant the majority of mini and mainframe computers. These and other major issues are to be addressed by the new Treasury Board Secretariat strategic directions and forthcoming studies by this Office on opportunities.

3.24 Departments need to optimize their investment in microcomputer technology by linking their acquisitions to their program needs, by supplying appropriate training, and by ensuring that their systems are compatible with established government and departmental standards, to support on-line interactive government systems and the portability of applications.

3.25 We acknowledge that it is difficult to complete a business-case analysis to assess the benefits of individual microcomputer acquisitions. However, considering the government's current and planned investments in office automation, departments need to acquire equipment and services as part of a planned strategy that includes doing appropriate business-case analyses. This is even more important now, in light of the current trend toward using micros as an integral part of a growing telecommunications environment. Where cost justification for individual micros is not practical, departments at least need to establish the quantitative or qualitative benefits of using them in organizational or functional units.

3.26 Equally important, post-implementation reviews are needed to determine whether projected benefits or improvements in service have been attained, and to provide input for refining future cost-benefit analyses. Departments therefore need to have short- and long-term information technology strategies to provide for the systematic implementation and future evaluation of microtechnology.

Observations

3.27 Our 1987 study found little assurance that the government was realizing the full potential benefits of its investment in microcomputer technology, due to a lack of planning, control and measurement of its effect on productivity. Today that investment has increased enormously. In 1987 there were close to 10,000 microcomputers used in the public service; at the end of the 1990-91 fiscal year that number was estimated at 180,000.

3.28 According to the Department of Supply and Services (DSS), the cost of a standard microcomputer workstation had dropped from $5,000 in 1987 to $2,500 by 1991. DSS also estimates that in fiscal year 1991-92 an additional $250 million will be spent, for a total of $870 million since 1987. Our 1987 study noted that the cost of making micros fully productive could be up to six times the initial purchase price; this is confirmed by recent research studies. This means that the government's total investment in microcomputer technology over the five-year period ending in

March 1992 could amount to as much as $5 billion.

3.29 The departments in our study have made considerable progress in implementing our 1987 recommendations. Most have published an approved microcomputer policy dealing with the issues of software licensing and copyright protection. Departments have also established micro support units and are addressing the security implications of using micros. DSS has automated procedures for ordering and for regularly updating the Master Standing Offers for micros, to reduce acquisition prices and lead times.

3.30 In 1989 and 1990 Treasury Board published new policies on the Management of Information Technology and of Government Information Holdings. This year TBS has also endorsed a new five-year strategic direction for "Enhancing Services and Program Delivery through Information and Technology". Our 1987 study encouraged innovation in the use of microcomputer technology; the new TBS strategic direction will consider programs and mechanisms that would recognize and reward innovative uses of technology.

3.31 Measuring productivity improvements derived from the use of microcomputers is difficult, especially at any level above a support or clerical function. Our 1987 study observed that "even though the task is not easy, organizations need to assess overall costs and benefits that result from using microcomputers." Current government policy says that the "relatively low cost of office-support systems has been used to argue that such acquisitions should be free of controls of any kind. While that approach might be defensible on a small scale, experience has shown that this view ignores a number of important considerations." The 1990 Treasury Board policy and new strategic direction propose government-wide evaluation of major information technology projects, based on business-case criteria.

3.32 Only one department has evaluated its "office-support systems": in 1990 the Department of the Environment produced a report projecting significant benefits over a six-year period, mainly in increased personnel productivity, and reduced costs for telephone, travel, mail, etc.

3.33 All departments have made major investments in the use of microcomputers over the past five years, and most are becoming more involved in networking. Some have completed business-case proposals for acquiring and using microcomputer technology. Our 1987 study found that the government was realizing measurable benefits from the use of micro technology; however, many of the microcomputers acquired recently are being used by government employees other than secretarial or support staff. Government and industry do not yet have effective methods to measure productivity improvements resulting from the use of microcomputers by "knowledge workers".

Department of Energy, Mines and Resources - The Management of Federal-Provincial Contribution Programs - 1988, Chapter 10

Background

3.34 Chapter 10 of the 1988 Report was considered at three meetings of the House of Commons Standing Committee on Public Accounts, on 26 and 27 June and 19 October 1989. The Committee did not issue a final report. The Auditor General of Canada appeared at those hearings and also before the Public Accounts Committee of the province of Nova Scotia.

3.35 The 1988 audit reviewed three major federal-provincial contribution programs :

- the $200 million Canada-Nova Scotia Development Fund;
- the $225 million Canada-Newfoundland Offshore Development Fund;
- the $63 million federal contribution to most provinces through the Mineral Development

Agreements. We focussed on the $44 million agreement with Quebec and the $4 million agreement with British Columbia.

3.36 The objective of the audit was to see if the terms and conditions set out for these contribution agreements had been followed, and if Parliament had been appropriately informed.

3.37 Each program we reviewed showed evidence of weak accountability to Parliament. Some of the projects supported by the $200 million Canada-Nova Scotia Development Fund appeared to be appropriately related to the objectives of the Fund, but many others — a total of more than $100 million in project commitments — did not. In contrast, the projects supported by the $225 million Canada-Newfoundland Offshore Development Fund did appear related at the time of our 1988 audit; however, it was too early to tell if value for money would be achieved. Our main concern with the Mineral Development Agreements was that the government had not prepared adequate economic development plans on which to base them.

3.38 We recommended that the Treasury Board and program managers review the problem areas we highlighted in these programs and take steps toward improving accountability to Parliament.

Organizational Change

3.39 At the time of the 1988 audit, the Canada Oil and Gas Lands Administration was the federal agency responsible for administering and monitoring both the Nova Scotia Development Fund and the Newfoundland Offshore Development Fund. As of 2 April 1991 the two funds were being administered and monitored by the Energy Sector, Department of Energy, Mines and Resources.

Conclusion

3.40 Our follow-up review indicates an overall improvement by the federal government in the administration of both the Nova Scotia Development Fund and the Newfoundland Offshore Development Fund. There is a revised process for approving new projects and for providing advice to the federal Minister of Energy, Mines and Resources. All project proposals submitted to the federal Minister for review are assessed for eligibility against the terms and conditions of the Fund; we observed that some projects have been rejected on the grounds of lack of relationship to offshore development. We also note that attempts to resolve the eventual disposition or recovery of a $4 million repayable loan for the purchase and servicing of land to provide for low-cost housing have been successful.

3.41 In the case of the Nova Scotia Development Fund we observed that the federal and provincial governments are discussing a possible modification, proposed by Nova Scotia, to the terms and conditions of the Fund.

3.42 We reviewed the projects approved since the 1988 audit under the Canada-Newfoundland Offshore Development Fund. These projects are related to the development of the Hibernia oil field and to other offshore-related initiatives, and are based on a formal provincial strategy for offshore development.

3.43 There now exists an improved process for planning and implementing the Mineral Development Agreements. Evaluations for the Agreements we examined in 1988 have been completed or are in progress.

Scope

3.44 Our follow-up began with a review of several of the more significant observations made in Chapter 10 of the 1988 Report, the recommendation in that chapter and testimony at Public Accounts Committee meetings. Several commitments made to the Public Accounts Committee by the Minister of Energy, Mines and Resources and by senior departmental officials formed the basis of our follow-up work.

Status of the Development Funds

Canada-Nova Scotia Development Fund

3.45 Of the $200 million total, $199,591,026 has been committed to projects; $170,013,045 of this has been paid to the province by the federal government.

3.46 Since the 1988 audit, seven projects have been submitted to the federal Minister for approval. Four projects were approved and two were rejected on the grounds of lack of relationship to oil and gas activities in the offshore area. One project is presently under review.

Canada-Newfoundland Offshore Development Fund

3.47 Of the $225 million total, $189,303,546 has been committed to projects; $69,893,710 of this has been paid to the province by the federal government.

3.48 Since the 1988 audit, six projects have been submitted for approval. Five were approved and one was rejected on the grounds that it was not related to offshore development.

Observations

Treasury Board

3.49 In a statement to the Public Accounts Committee, an official of the Treasury Board Secretariat argued that the existing mix of relative responsibilities between the Ministers of the Treasury Board and program Ministers regarding controls over the approval and implementation of federal-provincial contribution agreements was appropriate. Treasury Board did not see the justification for a major expansion of its role in this area.

3.50 At a subsequent Public Accounts Committee meeting, the Comptroller General stated that there had been a misunderstanding between the Department of Energy, Mines and Resources and the Treasury Board when the terms and conditions governing the contribution arrangement with Nova Scotia were approved. This misunderstanding permitted the payment of money for salaries of regular provincial employees. In 1988 we expressed concerns about the eligibility of these payments. There is no intention, or mechanism in place, to recover this money; however, there is now a formal departmental process to review compliance with the terms and conditions prior to the approval of new projects by the federal Minister.

Changes to the Administration of the Development Funds

3.51 During an appearance before the House of Commons Standing Committee on Energy, Mines and Resources, 20 June 1989, the Minister of Energy, Mines and Resources said that he had asked departmental officials to re-examine the way federal government approval would be given in the future for proposed projects under the Nova Scotia and Newfoundland Development Funds. The Department completed a formal review of the approval process, resulting in revised procedures for approving projects and for providing advice to the Minister.

3.52 On 19 October 1989 the Minister informed the Standing Committee on Public Accounts that, to strengthen the project approval process for the Nova Scotia Development Fund, a federal Interdepartmental Advisory Committee would be established and all new proposals submitted would have to clearly indicate their relationship to offshore oil and gas activity.

3.53 Federal Interdepartmental Advisory Committees for both Funds were established on 19 February 1990 to review projects for their eligibility against the terms and conditions of the Funds. Although there is little documentation of formal project analysis for either Fund, we found evidence of improved documentation in project proposal submissions; requests by the Minister for additional information before approving projects; evidence of formal consultation with other federal departments; and, in the case of the Nova Scotia Development Fund, minutes of committee meetings.

Canada-Nova Scotia Development Fund

3.54 Between 1985 and 1987, approval was given for three projects with repayment provisions. These potential repayments totalled $6,724,338. One project involving the provision of assistance to shipyards, approved in January 1987, involved loan repayments. A total of $2.3 million is outstanding. Repayments are to commence after completion of the approved project, which, in the case of each shipyard, is anticipated to be during 1991. A second project, approved in September 1985, provided a $4 million repayable loan for the purchase and servicing of land to provide for low-cost housing. Following persistent efforts by the federal government, agreement to recover this money has been reached. A third project approved in July 1985 — a repayable loan totalling $400,000 — was converted with the approval of the federal Minister to a conditional loan. The conditions of this loan have been satisfied and the loan was forgiven.

3.55 On 26 September 1990 the federal and provincial Ministers agreed, in accordance with Part VI of the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act, to discuss an amendment to the Canada-Nova Scotia Development Fund Agreement. The federal and provincial Ministers designated representatives to develop a draft amendment for ministerial approval. We have been informed that the intent is to clarify the meaning of social and economic infrastructure costs. Since no agreement has been reached, we are unable to assess the impact on the future administration of the Fund.

Department of Finance - Management of the Borrowing Program - 1988, Chapter 11

Background

3.56 In our 1988 chapter on the Management of the Borrowing Program, we made recommendations and observations in the areas of strategic or medium-term decision making; debt operations with respect to fiscal agent costs; program evaluation; and reporting to Parliament.

Scope

3.57 Our follow-up review focussed on the action taken by the Department of Finance in response to our recommendations and observations. We interviewed staff at the Department and reviewed documentation to substantiate the explanations given by Finance on the progress made since 1988.

Conclusion

3.58 The Department has acted on all our recommendations. However, in the area of program evaluation, although it is investigating methods of developing a program evaluation capability within the Treasury Board framework, nothing tangible has been accomplished.

Observations

Program Evaluation

3.59 We recommended that an assessment of borrowing program operations be made to determine what steps were needed to comply with Treasury Board's government-wide policies on program evaluation, since no such evaluation had been made. Moreover, in 1986 the Public Accounts Committee had recommended that the Department of Finance "develop a comprehensive program evaluation capability as described in the Comptroller General's Guide to the Program Evaluation Function".

3.60 In the section of the Department responsible for the borrowing program, alternative strategic approaches to meeting the government's financial requirements are analyzed and proposed to the government, and quarterly reports are made that assess the program's performance in relation to the approved annual borrowing program. As well, analysis on a transaction-by-transaction basis is undertaken.

3.61 In 1990, in response to our recommendation, the Department developed an independent committee to objectively evaluate the borrowing program; however, the committee never met. The Department of Finance maintains that it is still reviewing how it might comply with policies respecting program evaluation of the Public Debt Program.

3.62 This is the largest expenditure program of the government, since interest on the public debt is charged to it. It is also a huge financial operation involving several hundred billion dollars of transactions for new borrowing and for the retirement and refinancing of maturing debt. It is a highly technical operation affected by market forces and subject to public policies, such as monetary policy and exchange fund operations, over which the section responsible for the borrowing program has no direct control.

3.63 No improvements have been made respecting evaluation of this important program within the framework required by the Treasury Board policy.

Reporting to Parliament

3.64 We recommended that several changes be made in presenting information to Parliament, both for general use and for debates, with respect to the Borrowing Authority Act. Considerable improvement has subsequently been made in the information presented in the Part IIIs.

Department of Fisheries and Oceans - Atlantic Operations, Inspection and Corporate Functions - 1988, Chapter 13

Background

3.65 Our 1988 audit of the Department of Fisheries and Oceans (DFO) concentrated on two major departmental programs - Resource Management and Fish Inspection. In Resource Management we focussed on the delivery of the program in the Atlantic Zone and on the corporate functions that support it.

3.66 The 1988 audit report made 10 recommendations. In addition, DFO management made specific commitments toward correcting weaknesses it had recognized.

Scope

3.67 Our follow-up was limited, for the most part, to a review of documentation supplied by departmental officials. To supplement this information, we conducted interviews, sought additional documentation and carried out case study analyses.

Conclusion

3.68 Management has made progress in correcting the deficiencies in the Resource Management Program; in many cases, it has completed corrective action. Steps have been taken to ensure that economic advice is subjected to appropriate challenge and review, but some studies are excluded from the full process. The regulatory amendment process continues to be slow.

3.69 Management has acted to address the deficiencies in the Fish Inspection Program but progress in general has not been as fast as anticipated. However, progress has been faster than expected in developing the Quality Management Program, which makes it possible to place increased reliance on in-plant quality control.

Observations

Resource Management

3.70 **Implementing new approaches to resource management.** We had recommended that the Department determine the enforcement costs of new approaches to resource management. To follow up, we reviewed the Department's enforcement cost analysis of one resource management initiative implemented since 1988. We found that the Department's enforcement costs had been adequately considered.

3.71 **Improving economic analysis.** In 1988 we noted that the Department did not have a consistent process for developing the economic advice needed for long-term resource management strategies. Since 1988, the Department has conducted a number of studies of fleet viability and capacity. It has also formed a national committee of economic managers to co-ordinate economic activities. We believe these actions will contribute to a formalized, long-term approach to economic analysis.

3.72 **Challenge and review procedures for economic advice.** To ensure that economic advice meets necessary standards of consistency and credibility, we recommended that the Department institute challenge and review procedures. Since that time, a process for internal and external reviews of major economic analyses has been implemented. Since 1988, there has been considerable improvement; however, some reviews still are not formally documented and some studies are excluded from the full process.

3.73 **Issuing new licences.** In 1988 we noted that the Department was using varying methods to grant new licences. Around that time, the Minister's Atlantic Regional Council made recommendations that addressed these inconsistencies. DFO has incorporated the Council's recommendations in its most recent Commercial Fisheries Licensing Policy for Eastern Canada.

3.74 **Control of replacement vessel capacity.** In 1988 we noted that the Department vigorously enforced controls over the length but not the hold capacity of replacement fishing vessels. The Department lacked adequate information on the hold capacity of replacement vessels before they were built. When they were presented for licensing after completion, vessels whose hold capacity exceeded the limits of the vessel replacement rules were sometimes granted licences.

3.75 Since 1988, the Department has implemented new procedures requiring that owners provide information on capacity before building a replacement vessel. The now mandatory Application for Fishing Vessel Replacement requires information on the vessel's cubic capacity based on measurements certified by a marine surveyor. These actions have satisfactorily addressed our concerns.

3.76 **Improving the timeliness of regulatory amendments.** In 1988 we noted that delays in promulgating regulations had created problems in implementing previously announced policies or fishing plans. At the time of our audit it took nine months for a new or amended regulation received at national headquarters to get final approval. We recommended that the Department consider seeking an exemption from certain pre-publication requirements where extensive consultation routinely took place. The Department reviewed the issue and made such a request, but it was refused. A departmental internal audit subsequently made 21 recommendations to improve the regulatory amendment process. As part of our follow-up we reviewed 18 regulatory amendments completed in 1990; we found no significant change in the time required to promulgate regulations.

3.77 **Acquiring major equipment needed for enforcement initiatives.** In 1988 we reviewed the implementation of major enforcement initiatives. We noted that the Department had not had complete cost information about the armed boarding initiative, that costs had escalated and that the project's implementation had been delayed. In reviewing the acquisition of a surveillance helicopter, we were concerned that the Department had not adequately assessed the number of days when conditions would permit its use, and had not gathered appropriate data to evaluate its usefulness. We also noted deficiencies in communications equipment, which the Department was planning to correct.

3.78 During our follow-up we found that steps had been taken to identify the continuing costs of the armed boarding initiative. The anticipated annual costs for the initiative have remained relatively constant since 1988.

3.79 As a result of its limited use of the surveillance helicopter from offshore patrol vessels, the Department decided not to renew the lease. However, it has signed a three-year lease for a larger land-based helicopter. We reviewed the process for acquiring the latter to determine whether our concerns had been addressed. Although the documentation supporting the stated requirements was weak, we found that this helicopter appears to be meeting DFO's requirements.

3.80 The Department continues to make progress in improving its communications capability. However, implementation does not appear to be as quick as was anticipated, because of the technical complexities of this project.

3.81 **Improving operational productivity.** In order to improve the operational effectiveness of inshore patrol vessels, we recommended that DFO extend the practice of requiring that crews add the duties of fishery officers to their other duties. Since 1988, DFO has designated all ships' masters and deck officers and most crew members as fishery officers. The Department has obtained legal advice that these individuals can act as fishery officers on land or sea.

3.82 **Improving controls over the vessel acquisition process.** In 1988 we reviewed the Department's procedures for acquiring two types of small patrol boats. After noting problems with both classes we recommended that the Department improve its procedures for controlling design changes, and for ensuring that boats are designed and built to meet the needs of users.

3.83 Since 1988, the Department has improved the training of project managers, formalized the process of approving design changes and is developing a project management manual. To follow up, we reviewed procedures used to acquire additional 42-foot vessels. We noted that there was extensive consultation among users, project managers, the builder and regional staff. Formal sea trials were held for these vessels. These actions represent significant progress in addressing our recommendation.

The Fish Inspection Program

3.84 **Inspector training.** In 1988 we noted that formal training of inspectors had been heavily curtailed. The Department, recognizing the deficiencies, had planned to begin delivery of a formal training program by June 1989. Delivery of the first set of six completed training modules began in June 1990. Development and delivery of the remaining training modules is continuing.

3.85 **Manuals.** At the time of our audit the Department had begun revising its national manuals on inspection procedures, with a goal of issuing four new manuals in 1988 and completing two of those four in 1989. During our follow-up, we noted that many sections of the manuals were still in draft form; however, key sections dealing with health hazards and ensuring uniformity of inspection had been issued.

3.86 **Field reviews.** The Department intended to begin a program of systematic field reviews in 1989-90. There have been subsequent field reviews of compliance with specific policies and procedures, conducted under the direction of national headquarters. However, there has been no overall assessment of field compliance with national policies and procedures. Incomplete inspection manuals and the absence of a national plan for field review have limited the Department's progress in addressing this deficiency.

3.87 **Sampling.** In 1988 the Department began a review of its sampling methods to determine whether it could achieve the necessary degree of assurance using fewer samples. The Department has completed the study but has not modified its sampling plan while it continues to examine approaches to sampling.

3.88 **In-plant quality control.** In 1988 we noted that the Department was not relying on processors' in-plant quality control to assure that standards were met. This area has received a great deal of attention through the Quality Management Program, which requires processors to submit their quality control procedures to the Department for approval. DFO is now shifting emphasis from inspection of final product to monitoring compliance with approved quality management programs.

3.89 **Cost recovery.** In 1988 we noted opportunities to increase cost recovery in the Inspection Program. New measures were to be initiated by 1991. Responding to the Treasury Board User Fee Policy, DFO formed a task force to study opportunities for increased cost recovery in September 1990. This review was to include the Inspection Program. However, except for raising import inspection fees, the Department had introduced no additional inspection cost recovery measures at the time of our follow-up.

3.90 **Ensuring consistent application of standards.** In 1988 we noted inconsistencies in the standards applied by inspectors. We also observed that there was no systematic testing of inspectors' sensory evaluation skills. Since 1988, DFO has introduced policies and standards to improve consistency. The Inspection Program has also held a number of national workshops for assessing and ensuring uniformity in sensory inspection decisions.

The Fishing Vessel Insurance Program

3.91 In 1988 we noted that this program had been studied extensively since 1965. At the time of our audit another study had just been completed; an action plan was being developed that recommended the program's administration be consolidated to reduce costs. The plan had not been implemented at the time of our follow-up.

Efficiency - The Management and Use of Telecommunications in the Federal Government - 1989, Chapter 7

Background

3.92 In 1989 we examined the efficiency of the management and use of telecommunications in the federal government. We focussed on the operating framework and practices of five major user departments, the activities and role of the Government Telecommunications Agency (GTA), and the role of central agencies. Our 1989 Report recommended that:

- the Treasury Board ensure that an administrative infrastructure exist and that it support a co-ordinating body, such as a common service agency, to obtain or provide all telecommunications services for the federal government. We recommended that the co-ordinating body be held accountable for achieving the savings in telecommunications services; and
- GTA's role as a common service agency be reviewed and its mandate clarified, and the provision of common services for telecommunications be re-examined, with a view to studying the role of a common service agency as re-seller of carrier service and negotiator of agreements similar to "master standing offers" for services.

Conclusion

3.93 The Treasury Board and the Department of Communications have taken action on our recommendations. The new Government Telecommunications Council and Telecommunications Advisory Panel reflect a stronger recognition of the significance of telecommunications as a portion of total government expenditures. Treasury Board has also taken a positive step to ensure compatibility of the networks and portability of applications by establishing Information Technology Standards, which all government institutions must implement.

3.94 The Government Telecommunications Agency has been designated as a Special Operating Agency, providing it with a framework for greater entrepreneurial effort. GTA remains designated as a Common Service Organization for telecommunications services. This policy continues to classify the type of service GTA provides as optional to client departments and agencies.

3.95 The confidence of user departments in GTA's data network management has increased since our 1989 audit. GTA has the support and confidence of various interdepartmental committees dealing with telecommunications and information services in government. While there is some concern as to the ability of GTA's limited technical human resources to meet these expanded requirements, the Agency has now implemented an industrial exchange program with the private sector to augment its technical expertise.

3.96 GTA in its new role as a Special Operating Agency has taken steps to improve efficiency of government data and voice communications. More departments are taking advantage of GTA's new data communications bulk purchases.

3.97 The Government Telecommunications Agency and key users indicate that these actions are beginning to provide savings to government while expanding the services to meet new needs. GTA estimates it will save $13 million to $15 million in 1991-92. However, it is not possible during this transitional phase to accurately quantify savings to date, due in part to the lack of a precise government-wide inventory of government data services.

Department of the Environment Canadian Parks Service - 1989, Chapter 11

Background

3.98 In 1989 we reported on our audit of the Canadian Parks Service (CPS). The audit concentrated on strategic planning; performance measurement and reporting; protecting natural resources and physical assets; managing the efficient use of human resources; revenue and cost recovery; informatics; and information to Parliament. Our follow-up reviewed the progress of corrective action taken by CPS to address our 1989 observations and recommendations.

Conclusion

3.99 The Canadian Parks Service has taken some action on all the observations and recommendations in our 1989 Report.

3.100 CPS has developed a strategic plan, which was used to review 1991-92 operational plans and is now being used to determine future program priorities.

3.101 The 1990 biennial "State of the Parks Report" is an important achievement, providing detailed information on the current state of parks and historic sites, the risks to which each is exposed, and what still needs to be done to complete the system.

3.102 However, progress has been slow in some areas. Two of the more important of these areas are the preparation of Resource Management Plans and the provision to Parliament of results-oriented information.

Observations

Resource Management Plans

3.103 Resource Management Plans are used in the protection of natural resources. They have not yet all been completed. CPS has indicated that it does not have the required financial and person-year resources to prepare these plans. It also lacks the additional resources needed to implement new plans. However, CPS is monitoring the situation and preparing new plans on a priority basis, depending on the severity of identified threats to natural resources and the availability of funds to mitigate them.

Information to Parliament

3.104 The Canadian Parks Service has not yet developed adequate performance measurement information, including a system to measure quality of service and visitor satisfaction. The lack of performance information has impaired the Department's ability to provide Parliament with appropriate information on results. CPS, through the new results management framework initiative, is developing a results-based departmental decision-making and accountability regime. CPS proposes to link these results to its Strategic Plan and the Green Plan. It has also indicated that future initiatives for developing performance indicators will be compatible with this results management system. Until these indicators are developed, appropriate information on results cannot be provided to Parliament.

3.105 We will continue to monitor the Department's progress in addressing the remaining outstanding issues.

Department of External Affairs Consular Services - 1989, Chapter 12

Background

3.106 In 1989 we reported on consular services provided by the Department of External Affairs to Canadians living and travelling abroad. Consular activities encompass a wide range of services to help Canadian citizens outside Canada deal with problems requiring official assistance. Examples of consular services include issuing passports, visiting detained or imprisoned Canadians, assisting with citizenship registration and providing information to Canadians who visit foreign countries.

Conclusion

3.107 The Department of External Affairs is making headway in implementing the 1989 recommendations. It has decided to first merge consular with immigration services. The Department believes that this change will strengthen management's ability to fully implement all our recommendations by 31 March 1992.

3.108 Efforts initiated at headquarters to respond to our recommendations will have to be carried through at the missions. In particular, the range and extent of consular services must be defined in terms precise enough to ensure that treatment of Canadians is consistent and is perceived as fair, and to also ensure the most effective use of resources at each post. In our opinion, if the current momentum is maintained the Department should be able to meet its implementation target.

Areas of Substantial Progress

3.109 **Public awareness**. We recommended in 1989 that the Department define the target groups for its public awareness activities and ensure that appropriate information was communicated to each group. A consular awareness program has been developed and launched that addresses the concerns noted in our 1989 Report. It provides information to the travelling public by means of videos, print advertising, public service announcements and other media, about consular services that are and are not provided by the Department and about hazards involved in travelling abroad.

Areas of Reasonable Progress

3.110 **Deployment and training of consular personnel**. In 1989 we noted that the Department did not ensure that officers had appropriate experience and training to match the specific requirements of consular work. We recommended that the Department develop human resource plans to increase the profile and career opportunities for consular services personnel. The Department believes that the merger of consular services into a combined Consular/Immigration unit will give consular personnel increased and varied career opportunities. Since our audit, the Department has also diversified its training activities to provide different courses tailored to the training required. However, the integration of consular and immigration staff has dramatically increased the demand for consular training for social affairs officers, who will manage and deliver the program. The Department estimates it will take two to three years to properly train these officers.

3.111 Need to define duties and responsibilities of honorary consuls. Since our 1989 Report, the Department's headquarters has made progress in defining the duties of honorary consuls, by clarifying its instructions in manuals and by asking heads of missions to annually specify honorary consuls' responsibilities to them. Headquarters is now better monitoring monthly and annual information related to honorary consuls.

3.112 Contingency plans. In 1989 we reported that contingency plans for missions either did not exist or were not updated annually, as required by departmental policy. Without delay the Department then instructed all missions considered to be facing risk situations to immediately complete and update their contingency plans. It also instituted a revised procedure to ensure that contingency plans are sent to Ottawa by 31 December of each year.

3.113 In our follow-up, we reviewed the current status of contingency planning in the Department. Progress has been made toward ensuring that all 53 missions listed by the Department as being at risk have a contingency plan. However, the contingency plans have not been annually updated as required by departmental policy: 27 have not been reviewed for at least a year, and 5 of these were more than two years old.

3.114 The Department has indicated that it intends to institute its annual review and update procedure next year. We were informed that the 1990 update was not pursued actively by headquarters due to the additional workload associated with the Gulf Crisis.

Areas Where Progress Has Been Slower

3.115 Range and extent of consular services. Our 1989 Report noted uneven levels of services at different missions and recommended that the Department specify, for each post, the range and extent of the consular services it would provide to Canadians abroad. In the spring of 1991, it started a project intended to specify minimum departmental levels of service for the most common consular services. Each mission will then be required to develop mission-specific definitions as to the level of service it will offer to Canadians abroad, depending on local conditions, and to use these in its operational planning. We noted that one mission with a heavy and complex consular workload has already moved, on its own initiative, to implement the intent of this recommendation. We will continue to monitor ongoing developments to verify that this initiative proceeds as planned.

3.116 Passports. Our 1989 audit disclosed that a number of gaps existed in control procedures for the issuance of passports at missions abroad.

3.117 At the time of our follow-up, the Department had taken steps in certain areas to reduce the risk of issuing passports to ineligible persons. However, it had yet to fully assess the overall risk associated with the gaps we had identified.

3.118 The Department has informed us that it intends to conduct a thorough study of passport controls in the 1991-92 fiscal year.

Department of Finance - The Management of Foreign Exchange Operations - 1989, Chapter 13

Background

3.119 Our 1989 chapter on the Management of Foreign Exchange Operations presented observations and recommendations with respect to strategies to enhance earnings on foreign exchange assets; communication of strategic guidelines to operational managers; accounting and performance measurement; and information to Parliament.

Scope

3.120 Our follow-up consisted of a review of a status report by the Department, explaining its actions on our 1989 observations and recommendations; interviews; analysis; and a review of documentation.

Conclusion

3.121 The Department of Finance — or the Bank of Canada, as agent for the government — has acted on our 1989 observations and recommendations. Earning rates have been enhanced as a result of more systematic consideration of investment alternatives. However, the Department has yet to complete an analytical system to monitor reserve levels, investment guidelines for fund managers, and a performance information system. As well, information to Parliament needs to be further improved.

Observations

Enhancement of Earnings

3.122 An electronic system was put in place at the Bank of Canada that has been helpful in identifying day-to-day trading opportunities for different instruments and maturities, resulting in enhanced earnings through a more actively managed asset portfolio.

3.123 A paper on the required size of the reserves, and investment guidelines for fund managers, are being finalized and are expected to be implemented soon.

Accounting and Performance Information

3.124 The Bank of Canada purchased an analytical and reporting system to update internal records and analyze investment opportunities. At present, the return on Exchange Fund Account investments is compared to the yield on six-month Treasury Bills, a somewhat rough comparison given that not all investments are for terms of six months. A more elaborate performance measurement system is being developed that will make comparisons with a variety of instruments.

Information to Parliament

3.125 A section dealing with the notional costs of maintaining reserves has been added to the annual report of the Exchange Fund Account. This is an important advance. Further information should be included to provide Parliament with a more complete and comprehensible picture of the performance of foreign exchange operations. For example, comparative income data for, say, five years could be included, with explanations for major variances.

Department of Finance Tax Collection Agreements - 1989, Chapter 14

Background

3.126 In 1989 we reported on the administration of the tax collection agreements by the Department of Finance. We recommended that the Department improve its accountability and reporting to Parliament; ensure that the agreements are updated on a regular and timely basis; rectify the contravention of the agreements resulting from the imposition of flat-rate taxes by three provinces; review the methodology for estimation and allocation of income taxes payable to the provinces; and improve the methodology and procedures for estimating the provincial share of tax collections in the Provincial Tax Collection Agreements Account, shown in the Public Accounts of Canada.

Conclusion

3.127 In our follow-up we found that the Department has taken steps to address our recommendations. However, in two areas progress is somewhat slower than expected. In the area of updating the tax collection agreements and ensuring that activities under the agreements are supported by proper authority, we noted that draft amendments to the agreements have been prepared but have not yet received provincial approval. In the area of estimation and allocation of income taxes payable to the provinces, we found that the Department has started a project but it is not yet complete; final results are not available.

3.128 In regard to the imposition of flat-rate taxes by three provinces, the present arrangements have been extended until the end of 1991. The Minister has agreed to undertake consultations with the provinces and other interested parties, to examine the desirability of allowing provinces greater flexibility in defining their personal income taxes within the tax collection agreements. The Department published a discussion paper entitled "Personal Income Tax Co-ordination - The Federal Provincial Tax Collection Agreements" in June 1991, which, among other things, deals with flat-rate taxes. The Minister has also announced the formation of an advisory committee to review the technical aspects of the discussion paper. The outcome of this process may rectify the present contravention of the tax collection agreements.

3.129 The Department, in conjunction with the Office of the Comptroller General, is taking steps to improve some of the procedures for estimating the liability to the provinces for their share of tax collections in the Provincial Tax Collection Agreements Account. Some results of this effort may be reflected in the 1990-91 Public Accounts; further work is in progress. However, there is still more work to be done.

3.130 In response to our recommendation for improved accountability and reporting to Parliament, the Department has provided some additional information on the nature and objectives of the agreements in its Part III Estimates for 1991-92. It has not, however, provided any information on the results achieved in administering the agreements. The Department has advised us that it is looking into the matter with a view to providing some relevant additional information.

Department of National Health and Welfare - Canada Assistance Plan - 1989, Chapter 15

Background

3.131 In 1989 we audited the federal administration and delivery of the Canada Assistance Plan (CAP). CAP shares with the provinces and territories in the cost of providing social assistance and welfare services to persons in need. Provincial governments are responsible for the design and delivery of programs. Federal payments to the provinces under CAP were forecast to be $5.7 billion in 1990-91.

Conclusion

3.132 Monitoring and verification of provincial compliance with the Canada Assistance Plan Act is now better documented. Information in the Estimates and annual reports is still inadequate.

Observations

Compliance With the CAP Act

3.133 In 1989 we observed instances of apparent non-compliance with the CAP Act. The Department, however, is satisfied that it appropriately investigates all potential areas of non-compliance once it becomes aware of them. CAP staff now monitor the outcomes of all provincial appeal board tribunals to identify possible cases of non-compliance.

Monitoring and Verification of Compliance

3.134 In 1989 we reported the need to develop an overall planning document for monitoring and verifying compliance on a province-by-province basis. We suggested that it identify audit and review activities at federal and provincial levels, and include an assessment of the extent to which CAP staff can rely on the results of these reviews.

3.135 Since then, management has produced three new planning documents: a business plan, an annual work plan and detailed audit plans. Although a recently developed training course for CAP managers addresses the subject of reliance, the planning documents we reviewed in our follow-up do not. We understand, however, that staff and contract auditors are now documenting the audit areas reviewed and what reliance, if any, is warranted.

3.136 We also recommended in 1989 that the nature, extent and timing of planned and actual review work at the federal level be documented. The documentation of verification at this level has improved. CAP management informed us that variations from planned review activities are now analyzed and the results used when planning future reviews.

Information and Reporting

3.137 In 1989 we recommended that Canada Assistance Plan management develop and report more comprehensive information on CAP-related activities and results. We noted that the Department had failed to provide Parliament with the annual reports required by statute.

3.138 Our follow-up found that changes in the Estimates document over the last two years have been minimal. We still believe that the Estimates Part III represents a valuable opportunity to improve the reporting of Canada Assistance Plan information. For example, it could include key findings of CAP program evaluations.

3.139 The purpose of the annual report is to provide good and timely information; the Department is still falling far short of that objective. In June 1991 Parliament received one report covering the three years 1986-87 through 1988-89. The annual reports for 1989-90 and 1990-91 remain outstanding.

Quality Assurance - 1989, Chapter 16

Background

3.140 In 1989 we reviewed the quality assurance systems and practices of federal procurement operations. We conducted our audit at the Department of Supply and Services (DSS), which has the legislative mandate for quality assurance, and at other selected federal departments, including the Department of Transport and the Canadian International Development Agency.

3.141 This year the Office audited the DSS procurement function, which includes quality assurance as an integral component. Follow-up on our 1989 recommendations related to DSS, therefore, was included as part of that audit, reported in Chapter 18.

Conclusions

3.142 **Department of Transport**. In 1989 we recommended that the Department develop appropriate quality assurance policies and procedures for its Airports Authority Group and Canadian Coast Guard (CCG). The status report we subsequently received from the Department indicated that both branches were aware of, and agreed with, the division of quality assurance responsibilities between DSS and its client departments as outlined in the revised Chapter 230 (Product Quality Management) of the DSS Customer Manual. However, Canadian Coast Guard told us that the implications and application of the revised responsibility matrix had not yet been mutually considered by DSS and CCG.

3.143 We reviewed the specifications for airport emergency rescue vehicles and found that they now incorporate quality assurance requirements. For the Canadian Coast Guard most fleet system standards are still under development. CCG intends to include quality assurance requirements in system standards as it has for the welding of aluminum. However, these requirements had not yet been incorporated in the draft standards for two ship component systems that we selected for review. CCG also developed, for an acquisition project, procedures for initiating, tracking and monitoring design changes, a major concern in our 1989 audit. We were informed that this will form the basis of a formal quality assurance process for all CCG projects in the future.

3.144 Canadian International Development Agency (CIDA). In 1989 we recommended that CIDA assign the functional responsibility for quality assurance to a senior executive charged with developing and implementing agency-wide quality assurance policies and procedures, to cover all CIDA-funded contracts. CIDA agreed in principle and stated that the implementation of our recommendations could be more adequately considered subsequent to the establishment of an overall government policy on quality assurance.

3.145 On 1 January 1991 the Vice-President, Professional Services Branch was assigned responsibility for quality assurance in CIDA for all goods and equipment, with the sole exception of quality assurance for bulk commodities, which remained with the Director General, Operations Services Branch.

3.146 CIDA has not yet developed agency-wide quality assurance policy and procedures as we recommended in 1989. However, the Professional Services Branch began to develop and implement a five-part work plan in June 1991, which should lead to such a policy and procedures.

Department of National Revenue Customs & Excise - Excise - 1989, Chapter 18

3.147 The 1989 audit of the Department of National Revenue - Customs and Excise examined the administration of the federal sales tax (FST) by its Excise Branch. The FST system was to be replaced by the goods and services tax (GST) introduced in the 1989 federal budget. In addition to making audit observations on the FST administration, we emphasized the need to analyze FST weaknesses in order to benefit the implementation and administration of the GST.

3.148 The GST legislation came into effect on 1 January 1991. As the FST administration is being totally phased out, we have decided that it is not cost-effective to conduct a follow-up on our 1989 recommendations. Instead, we will be examining various aspects of the GST administration in future audits of the Department.

Department of National Revenue Taxation - 1989, Chapter 19

Background

3.149 In our 1989 audit of the Department of National Revenue - Taxation (NRT), we made observations concerning revenue programs and source deductions.

Conclusion

3.150 The Department has taken action in response to all of our recommendations. We are generally satisfied that the Department has adequately addressed our concerns, and we note in the following paragraphs only those instances where implementation has been partial or is still in progress.

Observations

Cash Receipts

3.151 Our audit looked at whether NRT would be able to cope in the event of a disaster affecting its computerized systems for dealing with cash receipts. We recommended that the Department include in its disaster recovery plan a strategy for operating, from the time a disaster occurs until the back-up computer site is ready for use. We also recommended that the Department periodically conduct tests to ensure that data maintained in off-site storage are adequate to effect a recovery.

3.152 The Department has put in place procedures for handling cash at district offices and taxation centres in the event of an equipment or system shutdown. Also, it has recently increased the number of data files regularly backed up for off-site storage. It has carried out and will continue to carry out tests to recreate selected files from data stored off site. The Department considers that this approach demonstrates its capability for recovery of immediately required data and, over time, will demonstrate the recoverability of the larger programs and files.

Canada Pension Plan

3.153 Our audit examined some of NRT's functions in the administration of the Canada Pension Plan. We recommended that the Department enter into a memorandum of understanding with the Department of National Health and Welfare outlining their respective roles. We also recommended that the two departments come to an agreement on the appropriate basis for calculating administration fees to be recovered by NRT from the Canada Pension Plan Account.

3.154 A memorandum of understanding between the two Departments was finalized in July 1991, subject to consideration by the Treasury Board of its financial implications.

3.155 Our 1989 chapter also reviewed the history of growth in the unidentified earnings file, as reported in the Auditor General's annual Reports since 1985. We noted at the time of our follow-up that the file continues to grow and now numbers 4.8 million items, for a total of $159 million. The Department has taken some initiatives aimed at slowing the growth of the file.

Taxation Centre Productivity

3.156 In our audit we observed variations in taxation centre productivity. We recommended that the Department analyze its operations to identify the reasons, and act to eliminate any inefficiencies.

3.157 The Department has since undertaken two studies, one focussing on the Ottawa Taxation Centre and another looking at performance standards in all taxation centres. The first study revealed opportunities for savings of 10 person-years. The research for the latter study is complete but the report on its findings has not yet been finalized.

Statistics Canada - 1989, Chapter 20

Background

3.158 In 1989 we audited how Statistics Canada had adapted its practices and programs to respond to budgetary restraint. We examined the Labour Force Survey, the Annual Survey of Manufactures and the planning of the Business Survey Redesign, the System of National Accounts Health Statistics and the 1986 Census of Population. In addition, we examined Marketing and Information Services for statistical products.

3.159 Our follow-up findings are based on a review of the agency's report on its action in response to our recommendations, and an examination of its supporting documentary evidence. We also conducted interviews with officials of the agency.

Conclusion

3.160 Statistics Canada has taken action to implement all our recommendations. The agency has made satisfactory progress to date.

Department of Transport Canadian Coast Guard - Protecting Mariners' and Public's Interest - 1989, Chapter 22

Conclusion

3.161 The Canadian Coast Guard (CCG) has made progress in some areas, but much remains to be done to fully address our concerns in such areas as establishing a capability to handle spills of hazardous materials, transportation of dangerous goods and assessing risks to the safety of ships.

Marine Emergencies

3.162 Transportation of dangerous goods. Because of technological limitations in spill containment and clean-up capabilities, prevention of spills involving dangerous goods is important. We noted in 1989 that the Canadian Coast Guard relied on voluntary compliance with regulations governing transportation of dangerous goods, and that there was limited enforcement. We also reported that ferry operators relied, without CCG inspections, on declarations by transporters as to whether dangerous goods were among those shipped on passenger ferries. While the CCG has initiated an inspection program for containerized goods in the Maritimes Region and plans to expand this program to other regions, it has yet to determine whether it is justified in relying on transporters to comply voluntarily with regulations, or whether it needs to increase inspections of marine shipments of dangerous goods. It is also developing guidelines for the frequency and scope of inspection of containerized marine shipments of dangerous goods.

3.163 Spills of hazardous materials. We observed in 1989 that the CCG had not developed the capability to deal with spills involving hazardous materials, other than petroleum products. The CCG has stated that part of the problem lies in the fact that dangerous products, such as toxic chemicals, may dissolve if spilled; the technology still does not exist to address this. The CCG states that it actively consults with industry; however, it has not yet formally assessed the industry response capability on which it would rely. A joint pilot project, with the Department of the Environment, is being implemented in the Maritimes Region. The Canadian Coast Guard indicates that equipment acquisition and personnel training now enable it to respond to specific, limited types of incidents with an initial assessment capability, including on-scene survey for initial assessment and limited emergency stabilization. This capability, to be extended to other regions in 1992, does not include post-spill clean-up, which the CCG states is the responsibility of the shipper or the shipper's contractor as required by the Transportation of Dangerous Goods Act.

Ship Safety

3.164 Fishing vessels. In 1989 we reported that over 90 percent of fishing vessels were too small to require regular inspection by the Canadian Coast Guard. Yet they accounted for the majority of lives and vessels lost, and unsafe operating practices caused the majority of fishing vessel accidents. The CCG carried out inspections of small fishing vessels in two regions in 1989 and 1990, and the number of safety violations detected decreased in the second year. The CCG states that it has proposed amendments to the Small Fishing Vessel Inspection Regulations related to passive protection devices (e.g. requirement for anti-exposure work suits). In addition, the CCG has drafted legislation on the certification of masters of vessels of 60 tons or more, as a first step.

3.165 Foreign vessel inspections. The Canadian Coast Guard did not have an overall plan for meeting the goal of the European Port State Control Agreement to inspect 25 percent of foreign vessels. Except for foreign oil tankers, none of the CCG's regional offices had goals for the rate of inspection of foreign vessels. The CCG has now doubled its inspection rate from 8 percent in 1989 to 15 percent in 1990. However, regional inspection targets have not been established.

3.166 Passenger ferry operations. In 1989 there was no formal program, such as random checking, to inspect operating practices on passenger ferries. The CCG relied primarily on others to ensure that safe operating practices were followed, and had done only limited verification to find out whether this reliance was justified. The Canadian Coast Guard states that it intends to ensure that owners and operators of these ferries have established a system describing their policy, organization and procedures for monitoring and enforcing safe operating practices on their ships.

3.167 Risk assessment. We first noted in 1983, and again recommended in 1989, that the CCG assess current risks to the safety of ships. The CCG had not carried out a comprehensive analysis to determine the best way of promoting safety in marine transportation. We found that the CCG allocated resources based on historical patterns for mandatory inspections rather than on analysis of current needs. While the CCG has developed a risk assessment framework, it has yet to develop national and regional risk management plans and allocate resources according to risk. The Canadian Coast Guard states that the majority of its ship safety resources are required to enforce international conventions and national legislation, and that a study of safety activities will contribute to the assignment of discretionary resources relative to risk.

Department of Transport Canadian Coast Guard - Fleet Management, Aids to Navigation and Icebreaking - 1989, Chapter 23

Conclusion

3.168 We found that the Canadian Coast Guard (CCG) has reviewed its fleet requirements for its navigational aids (navaids) fleet. However, union agreement is a factor which could have an impact on fleet rationalization. As for our other observations and recommendations, we are concerned with the length of time the CCG is taking to implement corrective measures.

Fleet Management and Icebreaking

3.169 Aids to navigation fleet. Our analysis of the capacity of the navaids fleet suggested that the 1987-88 peak workload could have been handled with at least five fewer ships. In 1989 only 5 of 36 multi-tasked ships had been converted to the lay day crewing system, which could increase the availability of existing vessels, reduce salary costs and potentially reduce the number of vessels needed. The Canadian Coast Guard's target was to reduce the icebreaking and navaids fleet from 46 to 42 vessels by 1993 but it has already reached that goal. Following an evaluation, the CCG is introducing the lay day system on more vessels, introducing a standardized crewing formula for all of its vessels, and has developed plans to redeploy, decommission and seasonalize some other vessels, while still meeting normal work demands. Also, the planned $33.4 million replacement of the Douglas has been cancelled. The CCG has reviewed its navaids fleet requirements and is working toward implementing fleet rationalization. The CCG presently has 10 multi-tasked vessels on the lay day system and plans to put 8 more on this system.

3.170 Icebreaking fleet. In 1989 we found that only 13 out of 28 ice-capable vessels in the regions examined made a substantial contribution to the icebreaking program. We concluded that the Canadian Coast Guard did not know the extent to which its existing fleet met or exceeded program requirements. We noted that, while efforts were under way in 1989 to analyze the need to provide icebreaker escort services — either for economic benefits or to meet other government objectives — levels of service had not been defined. We also observed that the CCG followed an historical pattern of sending all available heavy icebreakers to the Arctic every summer, and did not have an analysis of whether the number of vessels deployed could be reduced with better scheduling. The CCG issued icebreaking levels of service in October 1990, and states that these will be adjusted over the next couple of years based on operational results. Progress has been made, but the definition of the need for icebreakers has yet to be fully developed and applied to icebreaking operations.

3.171 We noted in 1989 that, by paying cash in lieu of compensatory leave, and keeping crews on board at full pay, the Canadian Coast Guard was not managing overtime in a way that was consistent with the seasonal work patterns of its large icebreakers. We also reported that the CCG had completed an internal study, which observed that crewing levels for large icebreakers were in excess of those recommended in the study. Our review of 1990-91 overtime costs revealed that heavy icebreakers are still incurring substantial overtime costs, and crewing levels remain in excess of the study's levels. The Canadian Coast Guard states that crewing levels have been reduced, effective April 1991, by the application of a standard crewing formula for all operational postures.

3.172 **Maintenance.** We observed in 1989 that the percentage of time spent in maintenance varied widely by region, with the highest maintenance time in the region of the lowest utilization, and vice versa. The Canadian Coast Guard has not yet developed maintenance standards and, as a result, cannot monitor variances from such standards for better control over maintenance costs. The Canadian Coast Guard states that preventative maintenance profiles for vessels are being developed; analysis and reporting of variances between actual maintenance and profile should be in place at the end of the current fiscal year.

Aids to Navigation

3.173 **Levels of service.** We reported in 1983 and 1989 that the Canadian Coast Guard did not have defined levels of service or a standard approach to defining the need for short-range aids. There were cyclical reviews to determine the requirement for navaids, but the process lacked a set of criteria for retaining, deleting or enhancing aids. The CCG approved levels of service for navaids in October 1990. A revised cyclical review policy has also been issued, and is to be used in conjunction with a proposed revision to the policy on the provision of navaids, which incorporates criteria for retaining, deleting or enhancing navaids. The levels of service for navaids are yet to be fully applied to CCG operations.

3.174 **Contracting out.** In 1989 there was no overall CCG policy on when and how contractors should be used, and no cost-benefit analysis had been done to determine the best mix between the Canadian Coast Guard and the private sector. There was a wide variation among the regions in the use of contractors. In May 1991 the CCG issued formal policy guidelines for contracting out.

3.175 **Solarized batteries.** We also noted in 1989 that the CCG had been slow in solarizing batteries on floating buoys, a practice that could increase battery life from one year to as long as eight years. The Canadian Coast Guard states that it has installed 85 solar-powered batteries on buoys to date. It has also informed us that a problem with reliable batteries has been resolved and that all 600 year-round buoys will be solarized by March 1993. The CCG also plans to start solarization of seasonal buoys by 1994-95.

3.176 **Maintenance.** We found in 1989 that the CCG was not ensuring that its buoys were checked with the frequency it recommended. We also noted a lack of uniformity in the painting of steel buoys. Few standard maintenance practices had been developed and there was no consistency among regions in the timing of and procedures for equipment inspection. The Canadian Coast Guard states that the buoy checking standard has been changed; seasonal buoys will not be checked and year-round buoys will be checked only annually. The CCG also has begun to apply high-performance paint to buoys in conjunction with the solarization project. For other short-range navaids, the CCG formed a technical committee of headquarters and regional staff in April 1991, to develop the necessary standards. The CCG has made progress in reducing its maintenance requirements for buoys, but is slow in developing maintenance standards for other equipment.

3.177 **Information Systems.** We reported in 1989 that the Canadian Coast Guard had been working on an aids information system since 1983, but the system was not fully operational. Our follow-up found that the system is still not operational, but the CCG plans to complete installation in three regions by October 1991.

Canada Employment and Immigration Commission and Unemployment Insurance Account - 1988, Chapter 18 and 1989, Chapter 24

Background

3.178 Our value-for-money audits in 1988 and 1989 focussed on the main activities whose expenses are charged to the Unemployment Insurance Account, to determine whether they had been managed with due regard to economy and efficiency. We also examined whether satisfactory procedures were in place to measure and report on effectiveness, in accordance with the Act and with applicable regulations and directives.

Conclusion

3.179 Our follow-up indicates that the Commission has taken several measures that satisfactorily respond to our observations and recommendations. For instance, it has developed new preventive measures to discourage abuse of the Unemployment Insurance (UI) system by claimants: a new policy imposes heavier penalties for repeat offenses. The delegation of new responsibilities to Investigation and Control Services support staff should speed up the decision-making process on overpayment cases.

3.180 The variable unit cost of processing unemployment insurance claims has decreased in constant dollars from $34 to $30 since 1988, while productivity has continued to improve. According to the indicators used by the Commission, the quality and speed of UI claims processing have not been affected. The Commission continues to monitor the operating practices of Canada Employment Centres and encourages them to look for the most economical and efficient work methods.

3.181 The Commission has recently developed and implemented other corrective measures, which will be the subject of a future audit or follow-up. In 1992 the Commission will participate in a new government initiative for recovering overpayments from income tax refunds due to claimants. It has also developed action plans setting out guidelines to promote the development and enhancement of the Labour Market Information function and to measure and report on the effectiveness of the Unemployment Insurance activity over a five-year period.

Observations

3.182 A number of weaknesses persist despite corrective measures, while other shortcomings have not been resolved. These are described below.

Employment Services

Links between Employment and Unemployment Insurance Services

3.183 **Re-employment of claimants**. The new Labour Force Development Strategy announced by the government in 1989 and the passage of Bill C-21 in October 1990 have altered and redefined the main activities of the Employment and Unemployment Insurance Services.

3.184 One major development is the Claimant Re-employment Strategy. During 1990-91, the Commission began the progressive implementation of the strategy in more than 350 Canada Employment Centres, thereby encouraging closer links between Employment and Unemployment Insurance Services.

3.185 The Commission has selected performance indicators for the Claimant Re-employment Strategy for 1991-92, but only after they have been implemented will we be able to assess actual progress in the re-employment of UI claimants. Given the current economic situation and the implementation of many other aspects of the strategy, monitoring of claimants' efforts to find employment is still in the process of being implemented.

3.186 At the time of the follow-up, the Commission was completing the selection and development of relevant indicators, originally planned for 1988, to measure the speed and quality of service as well as the productivity and efficiency of resources assigned to National Employment Services. However, testing of new indicators is not planned until 1992-93.

3.187 The results of initiatives and evaluation reports on the quality of counselling indicate that the Commission could measure the performance of these services. However, we found that the Commission still has no data on the effectiveness of its Counselling services, whether internal or external, for individual or group counselling. Effectiveness measures for these services are not planned until 1992-93. Moreover, the Commission has not assessed the cost-effectiveness of alternatives to individual counselling and ensured that Canada Employment Centres offer such alternatives where warranted.

Unemployment Insurance Services

3.188 Penalties are still applied inconsistently and on a limited basis in cases of unemployment insurance benefit overpayments. When claimants file subsequent claims, available systems still do not allow the Commission to detect previous overpayments until about six weeks later.

3.189 At the request of the Canadian Payroll Association, the Commission has deferred implementation of a new computerized Record of Employment indefinitely. Nonetheless, the Commission should continue to assess the costs and benefits of other ways to improve or simplify the Record of Employment system, including ways that would require amendments to the Unemployment Insurance Act.

Overhead Costs

3.190 The Commission has now defined overhead and related costs for its own purposes. It has been tracking overhead targets (person-years) of its regional offices for the past three years. Recently CEIC has targeted additional reductions in overhead activities at National and Regional headquarters.

Special Studies

Chapter 4

The Accountability Framework for Crown Corporations: Making It Work

The Accountability Framework for Crown Corporations:

Making It Work

Main Points

4.1 Crown corporations represent a significant portion of overall government activity. As of December 1990 there were 57 parent Crown corporations. Their activities in many sectors of the Canadian economy – transportation, resources extraction, marketing, international trade, finance, research, culture – required, in 1989-90, over $4.6 billion in budgetary funding from Parliament.

4.2 Revisions in 1984 to the Financial Administration Act (FAA) strengthened the control and accountability framework for Crown corporations. In 1989 we reported that considerable progress had been made in implementing key provisions. In 1990 we reported on experience with the audit regime established by Part X of the FAA.

4.3 There are four areas, noted in these previous reports, where greater effort is needed (paragraphs 4.12 to 4.14).

4.4 Crown corporations are required to disclose in their annual reports the extent to which their objectives have been met. Although there has been some improvement over the last five years, the majority of Crown corporations are not meeting this requirement. Though not easy, performance measurement and reporting are considered to be good management practice in both the public and private sectors. They are also a critical link in the accountability of Crown corporations to Parliament (4.15 to 4.48).

4.5 Crown corporations do not report amounts received through parliamentary appropriations in a clear and consistent manner. Consequently it is difficult to determine from their financial statements the total amount of funding received from Parliament, or to make meaningful comparisons of the financial results of their operations. This significantly diminishes the usefulness of the financial statements for accountability purposes (4.49 to 4.65).

4.6 Internal audit has been given a broad mandate and an important role in the accountability framework. Our observations on the first round of special examinations indicate that the internal audit function in many Crown corporations has a long way to go to fully meet those responsibilities. This will require the strong support of management and the active involvement of the audit committees of boards of directors (4.66 to 4.79).

Main Points (cont'd)

4.7 In 1989 we expressed concern that eight corporations were exempt from Part X of the FAA. Since then action has been taken to bring into line the legislative provisions covering one of these corporations. However, seven corporations remain exempt from key accountability provisions and two new corporations are being exempted (4.80 to 4.96).

4.8 Although considerable headway has been made with the implementation of many provisions of Part X of the FAA, further effort is required by all concerned to ensure that these four implementation weaknesses are addressed (4.97 to 4.101).

Table of Contents

Paragraph

Introduction 4.9

Four Areas of Concern

Reporting Performance 4.15
- A critical link in accountability (4.15)
- Performance information in annual reports is inadequate (4.23)
- Measuring and reporting on performance is a complex task (4.36)
- Importance of performance reporting is generally recognized (4.39)
- Conclusion: improvement is long overdue (4.43)

Accounting for Parliamentary Appropriations 4.49
- Financial statements are a basic source of information (4.49)
- Budgetary funding not clearly and consistently presented (4.51)
- Existing guidance needs to be supplemented (4.59)
- Conclusion: need for improvement in reporting parliamentary funding in financial statements (4.63)

Internal Audit 4.66
- An important element of the framework (4.66)
- Some progress in developing internal audit (4.71)
- Further strengthening of internal audit expected (4.76)
- Conclusion: internal audit needs strong support (4.78)

Crown Corporations Exempt from Part X of the FAA 4.80
- Exempt corporations have not been subject to key accountability provisions (4.80)
- A significant step (4.85)
- Concern remains (4.87)
- Accountability distinct from control (4.88)
- Conclusion: a need for clarification (4.93)

Summary Conclusions 4.97

The Accountability Framework for Crown Corporations:

Making It Work

Introduction

4.9 During the 1970s there was an increasing awareness that the legislative and administrative framework for the control and accountability of Crown corporations needed to be revised to keep pace with their growing number and range of activities. Revisions in 1984 to the Financial Administration Act (FAA) provided a framework designed to strike a balance between, on one hand, the need for adequate control and direction of Crown corporations by Parliament and government and, on the other hand, the need for the corporations to have an appropriate degree of independence and accountability. These revisions are now included in Part X of the FAA.

4.10 In 1989 we reported on the implementation of this framework after examining the extent to which its key provisions were in place and operating. We concluded that most of the important elements were in place but that some important areas required further attention.

4.11 In 1990 we reported on the Office's experience with the audit regime established by Part X of the FAA, including our special examinations and annual audits since 1984. We expressed support for the new and strengthened audit regime, but again raised a number of concerns.

4.12 In this chapter, we return to four areas of concern:

- reporting of performance against objectives in the corporations' annual reports;
- accounting for parliamentary appropriations to corporations;
- implementing the legislated requirement for internal audit; and
- clarifying the status of exempt corporations.

4.13 These areas of concern relate to essential elements of the control and accountability framework for Crown corporations, for they directly affect the information available to Parliament, management's responsibility to implement sound management practices, and the comprehensiveness of the framework itself. They are areas where we have concluded that greater effort is needed.

4.14 The control and accountability framework disperses responsibilities among a number of players – Crown corporations, their boards of directors and auditors, central agencies, government and Parliament. The success of the framework depends on all players fulfilling their individual responsibilities, but doing so in a co-ordinated fashion. The co-ordinated effort of all concerned is especially needed in these four areas.

Four Areas of Concern

Reporting Performance

A critical link in accountability

4.15 Part X of the FAA outlines the roles and responsibilities of Parliament, the government, Crown corporations and auditors. Parliament approves the creation, mandate and financing of parent Crown corporations. Government is responsible for approving their major strategic directions. Crown corporations are to carry out their mandates in ways consistent with sound management principles. The role of auditors is to provide, annually – to Parliament, to government as the shareholder and to the corporations – independent, objective assessments of whether corporations have presented their financial statements fairly and have complied with specified legislative and regulatory requirements. They also provide to the boards of directors, at least once every five years, an external opinion on management systems and practices maintained by corporations to safeguard assets, manage resources economically and efficiently, and carry out operations effectively.

4.16 For such a framework to work effectively, clearly understood corporate objectives are essential, along with a means of measuring and reporting performance against them. Reporting on performance is a critical link in the process of accountability.

4.17 Indeed, Part X of the FAA places considerable emphasis on performance reporting:

- corporations must state their objectives, strategies and expected performance for the year in corporate plan summaries;
- corporations must disclose in their annual reports the extent to which objectives have been achieved;
- Treasury Board has the power to require that certain quantitative performance information be included in annual reports; and
- Treasury Board has the power to call for the audit of quantitative performance information in annual reports.

4.18 The Crown Corporations Directorate, a joint organization of the Department of Finance and Treasury Board Secretariat, was created in 1984 to better facilitate and co-ordinate the government's management of Crown corporations. To date, its efforts to stimulate and improve the flow of information have been concentrated largely on corporate plans and budgets. Some of these activities have included:

- issuance in 1987 of guidelines for the preparation of corporate plan summaries. Experience with these was recently evaluated, and revised guidelines are planned for the near future;
- ongoing consultations with each Crown corporation to improve the overall quality of annual corporate plan and budget submissions;
- preparation of draft corporate plan guidelines, which are to be sent to each Crown corporation and which should contribute to clearer specification of goals and objectives and to improved performance measurement reporting; and
- the engagement of a major public accounting firm to prepare an initial draft of annual report guidelines. Further work in co-operation with the Office of the Comptroller General and the Office of the Auditor General on these guidelines is awaiting the release of the Canadian Institute of Chartered Accountants' study on the content of annual reports, expected this fall.

Corporations are required to disclose in their annual reports the extent to which they have achieved their objectives.

4.19 Besides being a legislative requirement for Crown corporations, measuring and reporting performance are generally considered to be good management practice. Management should know not only what its objectives are, in clear and precise terms, but also whether it is meeting them. Management should be able to demonstrate that it knows the level and quality of the goods or services the corporation provides and the cost at which they are being delivered.

4.20 We first reported indications of a weakness in this critical link in the accountability process in 1976. We noted then that information in the annual reports of Crown corporations was not adequate or suitable for Parliament to assess corporate activities. In 1989 we reported that, although the amount and timeliness of information to Parliament had improved significantly, its quality was still uneven. The most evident weaknesses noted were how objectives are articulated and how performance is linked to them.

4.21 In 1990 we reported that, as identified through special examinations carried out by our Office, a common area of weakness in the systems and practices of corporations was the lack of clear objectives, along with inadequate measurement and reporting of performance. We concluded:

> If objectives are not clearly stated and the extent to which they are met is not known or reported, full accountability by Crown corporations cannot be achieved.

Weaknesses in reporting achievement against objectives were reported in 1989 and 1990.

4.22 Annual reports are one of the key accountability documents for Members of Parliament to assess whether responsibilities set out for management of Crown corporations are being met. Useful information on the activities of Crown corporations is also found in Corporate Plan Summaries and Budget Summaries, and in the President of the Treasury Board's "Annual Consolidated Report to Parliament on Crown Corporations and other Corporate Interests of Canada".

Performance information in annual reports is inadequate

4.23 We reviewed the 1990 annual reports of 40 of the 57 parent Crown corporations, to determine whether they reflected the corporations' performance by stating, as required in paragraph 150(3)(c) of the FAA, the extent to which the corporations met their objectives. We did not include in our review the annual reports of four inactive Crown corporations, eight corporations exempt from the FAA provisions, or the five most recently created Crown corporations.

4.24 We looked for clear statements of objectives. A restatement of the corporation's statutory mandate was not in itself considered to be adequate, as it did not provide a sufficiently precise benchmark against which to measure progress. We looked for measures or statements that indicated how close the corporation had come to meeting its objectives.

4.25 We found that the majority of Crown corporations were not disclosing in their annual reports the extent to which they had achieved their objectives, even though this has been a requirement since 1984. This is consistent with our observation in 1990 that performance measurement and reporting were among the weaknesses most frequently reported to boards of directors as a result of special examinations conducted by our Office.

4.26 Performance information in annual reports is largely inadequate for several reasons. We found that:

- in reporting performance the majority of annual reports did not state what the objectives for the period had been;
- performance information was often not stated in precise or measurable terms; and
- where performance was reported against objectives, often not all objectives or elements of a corporation's mandate were addressed.

4.27 We found that, while many reports contained some information on services provided or activities undertaken during the year, often there was no statement of what management had intended to accomplish against which actual performance could be compared. Some reports contained performance information related to objectives that were stated in the summary corporate plans but not set out in the annual reports. To be meaningful to the reader of the annual report, a statement of the extent to which objectives were met must include explicit references to the objectives against which performance was measured.

4.28 The type of information on performance that was contained in annual reports was very uneven. In some cases, reports contained statements to the effect that "objectives had been achieved", but with no supporting information. There was a failure to quantify objectives and performance measures, where this could easily have been done. For example, greater use could be made of productivity, efficiency, or cost recovery ratios. Use could be made of measures describing the reliability, responsiveness or accessibility of services provided.

The majority of Crown corporations were not disclosing in their annual reports the extent to which objectives had been achieved.

4.29 In other cases, quantitative measures that were provided were not well enough explained to be informative. Reporting the extent to which objectives were met should include additional information, where it is necessary, to make the data meaningful to the reader. Such information would:

- explain the relationship between a reported statistic and the corporation's activities, strategies or objectives;
- explain variances between the planned and actual performance; and
- compare the performance with that of other corporations, the industry, or, at least, with past performance.

4.30 Rarely does the reporting of data or statistics alone provide the full story.

4.31 The mandate of a Crown corporation usually has several aspects, covering its financial, operational and public policy dimensions. We found that performance information most often did not address all the objectives of the corporation. Reporting on one or two objectives to the exclusion of the others can sometimes be misleading, since corporations often are required to make trade-offs among competing objectives. To be of greater use to Parliament in its role of approving funding to Crown corporations, it is important – even essential – that performance information address all key aspects of the corporation's mandate and objectives.

4.32 Reporting the extent to which objectives are met, where done, is not done in any systematic way. This makes it very difficult for a reader to locate performance information in Crown corporation annual reports. It would be useful to users of these annual reports if the performance material provided pursuant to the FAA requirement were set out in an identifiable section of the report.

4.33 We compared the current situation to the amount and extent of performance reporting in annual reports five years ago. While there is evidence of some improvement, there is still a long way to go.

4.34 Our review did not address the issue of the quality of performance information presented in the annual reports. For example, we did not attempt to answer the following questions:

- Are the objectives and performance measures that are reported comprehensive and relevant to the legislated mandate of the corporation?
- Does the information present an objective indication of the progress made toward stated objectives?
- Are the data accurate?

Inaccurate or incomplete reporting can be less helpful than no information at all.

4.35 The quality of performance information is, nevertheless, very important. Inaccurate or incomplete reporting can be less helpful than no information at all. We note that one corporation has taken the initiative to have certain key performance data attested to by an external auditor. Generally, however, non-financial performance information in annual reports of Crown corporations is not audited.

Measuring and reporting on performance is a complex task

4.36 Reporting the extent to which objectives have been achieved, while a legislated requirement for Crown corporations, is not easy. The mandates of Crown corporations are often broad and involve difficult-to-measure concepts. Nevertheless, it is necessary for senior management of Crown corporations and boards of directors to develop clear corporate objectives that are consistent with the legislative mandate, and to develop appropriate strategies for accomplishing them. As in the private sector, it is difficult to manage without specific targets or milestones against which the achievement of objectives can be measured. Corporations must identify those that are most meaningful to them, to the government and to Parliament.

4.37 Selecting the appropriate indicators of performance against such objectives also is not an easy task. Rarely can the performance of a Crown corporation be meaningfully assessed using a single performance measure or yardstick; multiple indicators may be needed to capture the different public policy, financial and operational dimensions. Care must be taken in the selection of these indicators and in the design of procedures to measure and report actual performance.

4.38 Nor is meaningful performance measurement and reporting a comfortable process. It means appraising performance objectively, acknowledging failures and weaknesses, and taking corrective action. It is understandable that a Crown corporation operating in a highly competitive environment may be reluctant to report performance results. However, this concern must be balanced against the fact that all Crown corporations, by definition, are wholly owned by the government, are instruments of public policy, are financed to varying extents by public funds and, ultimately, are accountable to Parliament.

Importance of performance reporting is generally recognized

4.39 There is a growing recognition, in both the public and private sectors, in Canada and elsewhere, that more information on corporate performance is needed, and that financial results alone do not adequately address the full range of shareholder concerns and information needs. Departments and agencies in the federal government have been required since the early 1980s to report on the performance of their programs and activities in Part III of the Estimates. Accounting for performance is an important element of the Public Service 2000 initiative.

4.40 Further, in the private sector, the Ontario and Quebec Securities Commissions have encouraged improved narrative reporting through management's discussion and analysis of the year's activities. They have called for better linkage between performance figures and descriptive text, for more frank, honest discussion of strategic choices and issues, and for more meaningful and complete comparison bases for performance data.

Though not easy, performance measurement and reporting are considered to be good management practice.

4.41 There is considerable study being done on improving such information in private sector corporate annual reports. For example, under the auspices of the Canadian Institute of Chartered Accountants, a major research study was commissioned on how to improve corporate annual reports, entitled "Information to be Disclosed in the Annual Report to Shareholders". The report, with conclusions and recommendations concerning management's discussion and analysis, is scheduled for release in late 1991. Also, the Society of Management Accountants of Canada released a research publication, "An Overview of Annual Reports and Guidelines for the Preparation of Annual Reports", in 1990.

4.42 Crown corporations also need appropriate guidance.

Conclusion: Improvement is long overdue

4.43 In today's environment of increasingly tight public resources, the need to hold Crown corporations accountable for efficient and effective performance is crucial. Performance measurement and reporting form a critical link in the accountability framework. Indeed, in tabling the FAA amendments in 1984, the President of the Treasury Board stated that "Parliament is to have access to a systematic flow of timely, pertinent information to allow it to judge whether Crown corporations have met their stated objectives for each planning period." After seven years, this information – largely still lacking in annual reports – is long overdue.

4.44 Crown corporations should state in their annual reports:

- **what their objectives are;**
- **the extent to which they have achieved each objective; and**
- **any other information necessary to understand the significance of the performance information.**

Performance reporting in annual reports needs to be improved.

4.45 Part X of the FAA provides Treasury Board with legislative authority to require corporations to improve reporting in their annual reports. For example, it can:

- issue regulations or guidelines for annual reports;
- require corporations to include certain quantitative performance information in their annual reports; and
- require the audit of such quantitative information.

4.46 To date, Treasury Board has not chosen to pursue these avenues.

4.47 We repeat our recommendation of 1990:

> **Where quantitative performance information is not being reported at present, corporations, in conjunction with their appropriate Ministers and Treasury Board, should identify appropriate ways to measure and report it in their annual reports. Although an optional requirement of the Financial Administration Act, this information should be subject to audit.**

4.48 To date, we have not reported individual cases where corporations have not complied, allowing time for them to clarify their objectives and to identify appropriate performance measures. Now, however, seven years after the FAA was amended, we believe that sufficient time has passed. Because of the importance of performance information, as part of the annual audit we intend to continue monitoring corporations' compliance with the important FAA provision that requires each annual report to include a statement of the extent to which the corporation has met its objectives. We will consider reporting instances of non-compliance. Further, an examination of the key systems and practices used to measure and report performance against objectives will be included again in the next round of special examinations.

Accounting for Parliamentary Appropriations

Financial statements are a basic source of information

4.49 The audited financial statements of Crown corporations, contained in their annual reports, are an important source of information for Parliament. Indeed, it is in their financial statements that Crown corporations account for the way they use their resources, including the financial support they get from government through parliamentary appropriations.

4.50 Crown corporations receive funding from Parliament in different forms and for different purposes. Budgetary funding, which has a direct impact on the federal deficit, consists of direct funding support for operating and capital expenditures of Crown corporations. Non-budgetary funding, which does not have an impact on the deficit, but which increases the overall financial exposure of the government, is provided in a variety of ways such as loans, investments and advances. The main uses of funding from Parliament are for operating and capital expenditures, loans and advances and equity financing. Given the magnitude of this funding to Crown corporations, it is very important that information be readily available to show clearly how that money has been used.

Budgetary funding not clearly and consistently presented

4.51 This year we reviewed the financial statements of Crown corporations that received parliamentary appropriations in 1989-90, to see whether they provided clear, simple and understandable information about the amount and nature of that funding.

4.52 We found that operating and capital appropriations were accounted for and reported in a variety of ways. For example, some Crown corporations reported operating appropriations in the operating statement, while others reported them through the balance sheet. Further, among Crown corporations that reported operating appropriations in the operating statement, the funds were not always reported in the same way. In some cases, they were reported as part of revenue; in others, as a reduction of expenses; in other cases they were deducted from the net cost of operations.

4.53 Capital expenditure appropriations were applied by some Crown corporations to reduce the cost of their assets while others applied them to increase the equity.

4.54 This wide diversity of accounting and reporting practices causes a number of problems. First, it is often difficult to determine the total amount of financing received through parliamentary appropriations in any one set of financial statements.

4.55 Certain Crown corporations provided additional information through the notes to their financial statements, for example to explain the accounting principles used to account for the appropriations, or to further discuss a particular type of appropriation. However, very few corporations provided comprehensive information on all types of parliamentary funding and on the total amount received during the year from Parliament.

4.56 The total amount of budgetary funding to each Crown corporation is set out in Table 2 of the President of the Treasury Board's "Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada". However, it is difficult to relate these amounts to figures in the financial statements of the respective corporations.

The total amount of budgetary funding received by Crown corporations is often difficult to determine from their financial statements.

4.57 Second, because Crown corporations do not report parliamentary appropriations consistently or explain them clearly, users of financial statements may well be led to inappropriate comparisons and conclusions. For example:

- Comparing the investment in fixed assets of one Crown corporation with that of another may be misleading, because some have netted appropriations against the cost of assets while others have not.
- Comparing results of operations can also be difficult since some corporations include the appropriation in the calculation of net income or loss, while others reflect it as an increase in equity.

4.58 These different ways of accounting and reporting may be justified individually under generally accepted accounting principles. Yet, when considered from the perspective of the users of financial statements (including government and Parliament), they convey significantly different information about the financial positions and results of operations of Crown corporations.

Current reporting practices make it difficult to make comparisons among corporations based on their financial statements.

Existing guidance needs to be supplemented

4.59 For clarity and comparability, it is important that Crown corporations follow the same conventions when reporting how they use their parliamentary funding. Part X of the FAA requires that those Crown corporations governed by the FAA prepare their financial statements in accordance with generally accepted accounting principles (GAAP), as supplemented or augmented by Treasury Board regulations. Further, it is generally recognized, under GAAP, that similar transactions in similar circumstances should be accounted for and reported in similar ways.

4.60 Existing accounting pronouncements, derived primarily from private sector practices, do not specifically cover all the issues related to accounting and reporting parliamentary appropriations. In light of this, and given the uniqueness of each of the corporations, it is little wonder that over time they have adopted many different accounting practices to report parliamentary funding.

4.61 During our 1989 review of the implementation of the FAA framework we noted that, in the accounting treatment of parliamentary appropriations, GAAP had not been applied consistently across corporations.

4.62 As a result, we noted in our 1989 Report that "there may be an opportunity here for the Treasury Board to exercise its power to make regulations concerning financial statements generally and, specifically, to augment or supplement GAAP so as to promote more consistent and meaningful disclosure." To date, no such guidelines or regulations have been issued.

Conclusion: need for improvement in reporting parliamentary funding in financial statements

4.63 The usefulness of the financial statements for accountability purposes is significantly diminished because of the lack of comprehensive information regarding parliamentary appropriations, and the significant impact of the divergent accounting and reporting approaches on the results of operations and financial positions of Crown corporations. Consequently, the current wide number of different accounting practices for the same types of transactions should not continue.

The solution will require the combined effort of all concerned.

4.64 There is no easy solution to these concerns. Developing more uniformity in the methods of accounting for and presenting parliamentary appropriations will require the combined effort and co-operation of Crown corporations, government, central agencies, and auditors and the accounting profession.

4.65 To achieve the needed improvement in the clarity and consistency of financial information, the Treasury Board and the Crown corporations, in consultation with their auditors and the accounting profession, should review the situation and propose the most appropriate way to account for and report parliamentary appropriations.

Internal Audit

An important element of the framework

4.66 Internal audit's primary function under the FAA is to assess, for the board of directors, management's compliance with its legislated responsibilities to maintain systems and practices that ensure assets are safeguarded and controlled, resources are managed economically and efficiently and operations are carried out effectively. In doing so, internal audit facilitates the external auditor's work in both the annual audit and the periodic special examination, thereby making the functioning of the framework more efficient.

4.67 Internal audit – whether by staff or contract auditors – is mandatory under Part X of the FAA unless an exemption is obtained. An exemption may be granted if, in the opinion of the Governor in Council, the cost of such audits would outweigh the benefits.

The scope and mandate for internal audit in Crown corporations are set out in legislation.

4.68 Furthermore, the scope and mandate for internal audit are specified in legislation, as is the requirement that the external auditor rely on internal audit to the extent practicable in conducting both the annual audit and the special examination.

4.69 Finally, Part X of the FAA also requires that the board of directors of each Crown corporation establish an audit committee to oversee internal audits and to review and advise the board with respect to the financial statements, the annual auditor's report and the plan and report of any special examination. The auditor or any member of the audit committee may call a meeting of the committee.

4.70 This situation is very different from that of government departments and agencies, where the conduct and scope of internal audit and the role of audit committees are directed by administrative policy rather than by law.

Some progress in developing internal audit

4.71 In reporting on the implementation of Part X of the FAA in 1989, and on the audit regime in 1990, the Office expressed strong support for internal audit, and for the strengthened audit regime. Internal audit is one of management's essential tools for ensuring the maintenance of adequate systems and practices. Its presence and broad scope should provide some measure of assurance to boards of directors and government that Crown corporations are maintaining systems and practices designed to safeguard assets, manage resources economically and efficiently and carry out operations effectively.

4.72 In a review of our experience with the first cycle of special examinations we observed that, of the 28 corporations where we were the examiner, five active corporations had neither conducted internal audits nor received an exemption from the requirements to do so.

4.73 Progress has been made since. Among the five active corporations that had not met the FAA requirements, two have since undertaken internal audits. Another is in the process of being dissolved. However, two corporations still have not yet complied with the legislation requiring them to either carry out internal audits or to obtain an exemption.

Carrying out internal audits is only part of the picture - the quality of internal audit work is also important.

4.74 However, carrying out internal audits is only part of the picture. The scope, quality, timing, objectivity and independence of internal audit work are of equal importance.

4.75 For example, we reported in 1990 that among the 14 corporations with internal audit, our reliance on internal audit work varied greatly, from none to extensive. As we observed in 1989, corporations with well-developed internal audit moved quickly to assume the responsibilities assigned to them when the framework was established in 1984. In other cases, it has taken time to build up internal audit teams and to develop the methodologies and experience required.

Further strengthening of internal audit expected

4.76 Seven years have now passed since the mandate for internal audit was established in legislation. The second cycle of special examinations is under way. We expect that corporations are making progress in implementing that mandate. For example, we expect that:

- considerable work is being undertaken by internal audit to assess management's compliance with the requirements to maintain certain systems and practices;
- internal audit is undertaking follow-up work to ensure that any significant deficiencies identified in special examination reports are being dealt with; and
- the audit committee is playing an active role in overseeing the work of internal audit.

4.77 If the expected improvements are realized by the time the second set of special examinations is undertaken, the external auditor may be able to place greater reliance on internal audit. In addition, because of the work of internal audit, we might anticipate that the number of significant deficiencies identified in upcoming special examinations would be reduced from those reported in the first set of special examinations.

Conclusion: internal audit needs strong support

4.78 We recognize that internal audit has been given, by virtue of its broad mandate, an onerous responsibility. Because the scope of internal audit is prescribed by law, and all corporations are required to carry out internal audits unless specifically exempted, it is clearly meant to play a significant and effective role. But its success will depend on the strong support of management and the active involvement of the audit committee of the board of directors. For example, management understandably will want some internal audit resources to be devoted to meeting its direct needs. However, sufficient resources also ought to be available to internal audit to permit it to meet its legislated mandate.

Internal audit will require strong support from management and the audit committee to fulfil its mandate.

4.79 We intend to continue monitoring internal audit in Crown corporations. We hope that by 1994, a full 10 years after the requirement for internal audit was legislated, we will be able to report that internal audit is in place and functioning as intended.

Crown Corporations Exempt from Part X of the FAA

Exempt corporations have not been subject to key accountability provisions

4.80 When the framework for control and accountability of Crown corporations was established in 1984, it covered all but seven parent Crown corporations. One additional corporation was given exempt status in 1984. The FAA provided that parent Crown corporations incorporated or acquired after that time be named in a Schedule to the FAA within 60 days, or be dissolved.

4.81 Before 1984, the FAA applied only to scheduled Crown corporations and not to their wholly owned subsidiaries. In addition, with no requirement for scheduling new corporations, the schedules were not always kept up to date when new corporations were created or acquired, or when corporations changed their status. As a result, the application of the FAA to Crown corporations was neither comprehensive nor current.

4.82 In 1989 we reported as a major improvement that, "except for a few that are exempted", the 1984 framework applied to all Crown corporations. In Chapter 1 of the same report, we recommended that the status of exempt corporations "be clarified and, to the extent possible in view of their specific needs, brought into line with the Part X framework".

4.83 Certain corporations were exempted because of the perceived need to protect the special nature of their relationship to the government – that is, a degree of independence from political and bureaucratic control. Consequently, they have not been subject to certain provisions that support good management and accountability.

We have expressed concern in the past that some corporations are exempt from Part X of the Financial Administration Act.

4.84 Specifically, these corporations have not been required to table corporate plan summaries in Parliament, which would serve to inform Parliament of their objectives. They have not been subject to statutory requirements to disclose in their annual reports the extent to which objectives have been achieved. There have not been explicit requirements for them to fulfil certain management responsibilities, such as maintaining systems and practices that provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently and operations are carried out effectively. Nor have they been required to undertake internal audits or establish audit committees. Finally, these corporations have not been subject to an explicit legislated requirement to undergo special examinations or even, in some cases, an audit of compliance with authorities – an important part of the annual audit provisions of the FAA.

A significant step

4.85 Since 1989, action has been taken to bring the requirements governing one exempt corporation, the Canadian Broadcasting Corporation (CBC), into line with Part X of the FAA. This was accomplished by incorporating provisions of the FAA into the amended Broadcasting Act, which contains revisions to the enabling legislation for the CBC. This is a significant, positive step, since the CBC accounts for about 70 percent of the government funding to exempt corporations.

4.86 With the proclamation of this legislation in 1991, the CBC became subject to parallel accountability requirements, for example to table corporate plan summaries that inform Parliament of its objectives, strategies and expected performance, and to report the extent to which it has achieved those objectives in its annual report. Management's responsibility to maintain systems and practices and cause internal audits to be undertaken is set out clearly, in the same manner as in Part X of the FAA. In addition, the CBC is subject to parallel provisions for annual audit and a special examination at least once every five years.

Parallel provisions have been incorporated in the legislation covering one exempt corporation.

Concern remains

4.87 However, other corporations still remain exempt from Part X of the FAA, with no parallel provisions in place to clarify management's responsibilities or to ensure consistent accountability to Parliament. Further, the population of exempt corporations is being expanded with the addition of two new corporations.

Accountability distinct from control

4.88 It should be noted that we are not aware of any problems in these corporations that might have been avoided if they were subject to Part X. Further, we have observed that a significant number of exempt corporations have voluntarily complied with important provisions of the FAA. We believe, however, that many of the provisions of Part X of the FAA, particularly those relating to management responsibility, accountability and audit, would be beneficial to those responsible for managing and monitoring these Crown corporations, and to Parliament.

4.89 "Bringing these corporations into line" does not necessarily mean that their exempt status, or their independence from undue bureaucratic and political control, should be removed. It could be done in a number of ways. For example:

- by incorporating relevant sections of Part X of the FAA into the enabling legislation of each of the exempt corporations; or
- by scheduling the corporations in the FAA, but exempting them from specific provisions.

4.90 A distinction can be made between the aspects of the regime related to control and those related to accountability. This is reflected in the treatment of several corporations that currently are exempt from specific provisions of Part X of the FAA, rather than from the whole of the legislation.

4.91 The view that a distinction can be made between matters of control and those of accountability is supported also by the fact that certain exempt corporations already meet some of the basic requirements of accountability, as a result of either their own legislative requirements or their own initiative. For example, four of the eight exempt corporations have voluntarily undergone a value-for-money audit. In addition, half of the corporations have established internal audit functions and audit committees.

4.92 In summary, we believe that clear statements of management responsibilities, accountability requirements and audit provisions can and should be incorporated in legislation. Flexibility can be achieved in matching the extent of the control provisions to the nature of the organization and its consequent need for independence. However, too many variations in treatment will tend to weaken the nature and purpose of the overall framework.

Conclusion: a need for clarification

4.93 The 1984 amendments to the FAA were designed to ensure a consistent and appropriate level of accountability. We remain concerned that key elements of Part X of the FAA have not been applied to all exempt corporations, as was anticipated when Part X of the FAA was introduced.

Concern remains as the population of exempt corporations increases.

4.94 As a result, with respect to these corporations:

- Parliament may not have sufficient information to fulfil its role in scrutinizing and authorizing the use of public funds and holding government to account for the achievement by these corporations of their objectives;
- management's responsibility for the economic, efficient and effective use of resources is not as clearly defined; and
- these corporations are not subject to an audit regime that is sufficiently broad to address all issues of concern to Parliament.

4.95 In addition, we are concerned that the number of Crown corporations exempted from the important requirements established by Part X of the FAA is being expanded.

4.96 Consequently, we repeat our 1989 recommendation:

The status of all exempt corporations should be clarified and, to the extent possible in view of their specific needs, brought into line with Part X of the FAA.

Summary Conclusions

4.97 Crown corporations continue to form a significant part of government activity. They are accountable for their activities to government and Parliament.

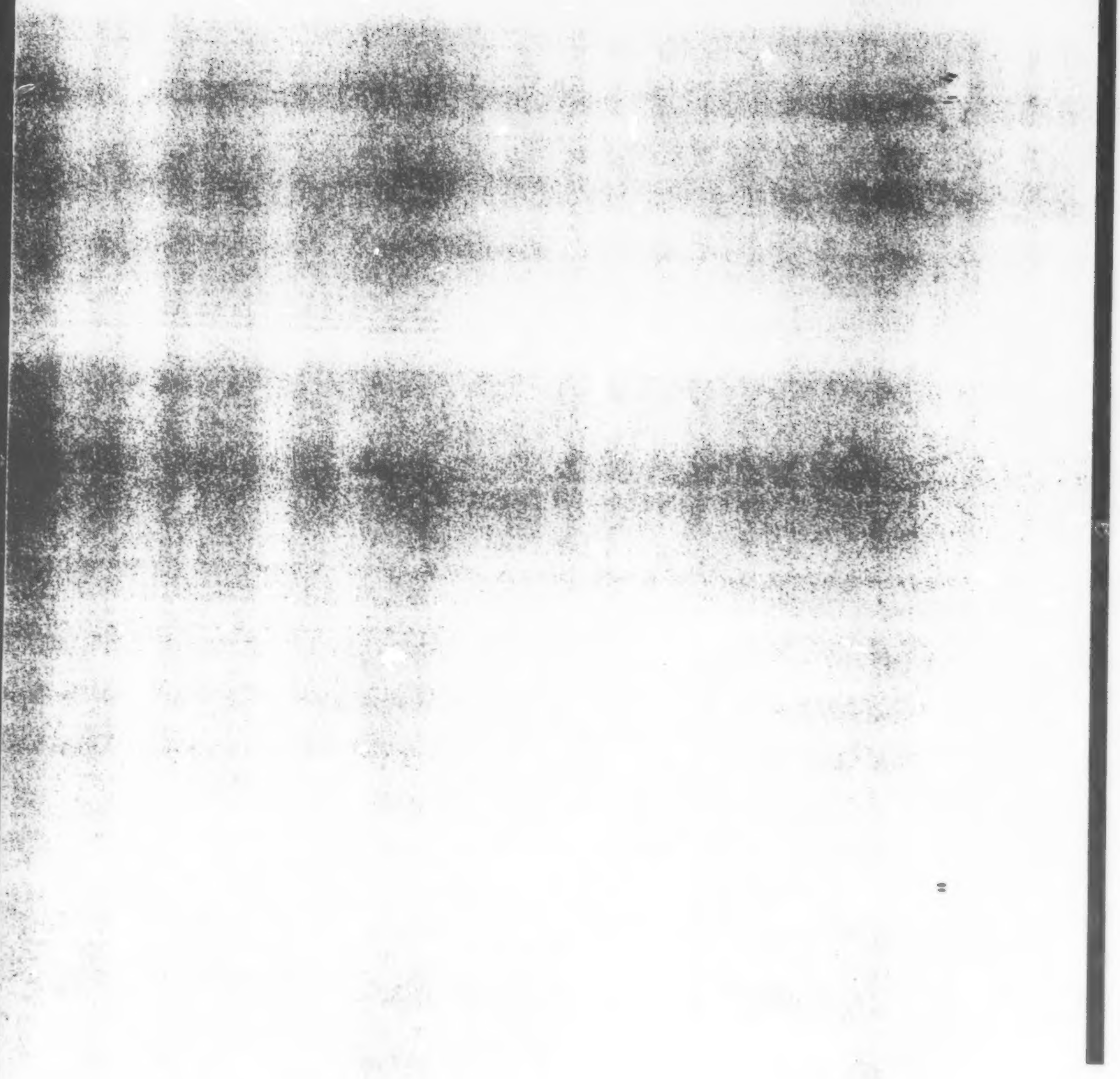
4.98 Critical to ensuring and maintaining this accountability is the provision of information to enable Members of Parliament to reach informed conclusions about Crown corporations. It is important that Parliament know how well a corporation's activities are achieving the purposes for which it was created. It is equally important that Parliament have a clear picture, in the financial statements of each Crown corporation, of the use of parliamentary funding.

Greater effort is needed to improve the effective working of the accountability framework.

4.99 The amendments to the FAA respected the principle that direct responsibility for management of Crown corporations would rest with the respective boards of directors and chief executive officers. To provide assurance to government and to Parliament that public funds would be managed economically, efficiently and effectively, a rigorous audit regime was established that included a strengthened role for internal audit and audit committees. It is important that Parliament have adequate assurance that this responsibility for internal audit, delegated to management and the audit committees of Crown corporations, is being met.

4.100 The Office strongly supported the strengthened legislative framework for Crown corporations, and has continually urged that those Crown corporations that were exempted from Part X of the FAA be brought into line with its accountability provisions. It is important that Parliament have assurance that appropriate accountability provisions apply to all parent Crown corporations. When exemptions are granted, means should be found to ensure adequate control and accountability.

4.101 Although considerable headway has been made in implementing the accountability framework for Crown corporations, greater effort is needed in these areas, on the part of all concerned, to improve the effective working of the framework.



Chapter 5

Innovation within the Parliamentary Control Framework

Innovation within the Parliamentary Control Framework

Main Points

5.1 Over time, government has established Royal Commissions and other reviews to examine the management practices of the federal public service. The most recent has resulted in a policy for public service reform to improve services to the public, Public Service (PS) 2000. The objectives of this initiative are supported by our Office. The proposed changes are significant both in terms of the departments and agencies involved and the range of problems they address. Their implementation has just begun (paragraphs 5.6 and 5.10).

5.2 The purpose of the study reported in this chapter is to address, early in the reform process, whether we believe that further consideration needs to be given to certain aspects of the reforms as they are being implemented. In particular, we examined the guidance being provided to managers on implementing the desired reforms while still meeting parliamentary control requirements (5.24, 5.25 and 5.29).

5.3 We have drawn on a number of innovative practices, influenced by financial restraints, in the Department of Fisheries and Oceans to illustrate our comments. They show initiatives by managers on both the Atlantic and Pacific coasts to improve the delivery of services at a lower cost to taxpayers. All of these initiatives were started prior to the current reforms – some over 10 years ago – but are considered by managers to be consistent with many of the goals of PS2000. They demonstrate the commitment of public servants to improving programming, getting the job done and meeting the needs of the fishermen, while minimizing the public funds spent by the Department (5.30 to 5.39, 5.43 to 5.48 and 5.57).

5.4 In these cases public servants at Fisheries and Oceans have been innovative in their solutions to improving service, which they implemented with good intentions. However, because of the particular approach fisheries managers have chosen in implementing these solutions and financing them, these initiatives do not, in our opinion, satisfy the requirements for parliamentary control. The government has informed us that there are other cases in the Department of Fisheries and Oceans and other departments where managers have successfully reconciled innovation with the parliamentary control framework (5.40 to 5.42, 5.49 to 5.54 and 5.58).

5.5 As shown in our illustrations, certain managers have encountered difficulty in reconciling programming initiatives, taken to improve services and respond to financial restraints, with the parliamentary control framework. Since an appropriate parliamentary control framework is part of the new culture advocated by PS2000, it is important in this period of change that managers understand, through training and guidance, how this framework will be applied in the new environment (5.24 to 5.29 and 5.56).

Table of Contents

Paragraph

Introduction 5.6

Purpose of the Study 5.12

The Changing Environment for Public Service Managers 5.14
- The challenge to improve services (5.14)
- The dilemma for program managers (5.16)

The Parliamentary Control Framework 5.17
- Implementing administrative and management reform (5.20)
- Progress in financial management (5.21)

Effective Change 5.22
- Adapting to cultural change (5.22)
- Need for consistent message on the requirements for parliamentary control in the new environment (5.24)
- The dilemma for managers: reconciling innovation with parliamentary control (5.26)

Illustrations from the Department of Fisheries and Oceans 5.30

1. **Quota Monitoring** 5.33
   - Problem: how to improve management of the competitive fishery (5.33)
   - One solution: change to individual quotas (5.34)
   - The Department has the authority to initiate changes in fisheries management (5.35)
   - The requirement to finance increased monitoring cost (5.36)
   - Individual quotas are seen as beneficial (5.39)
   - Lack of fit with the parliamentary control framework (5.40)
   - Full costs are not reported to Parliament (5.42)

2. **Test Fishing** 5.43
   - Problem: how to gather essential data using fewer resources (5.43)
   - One solution: contract test fishing out to fishermen (5.44)
   - Test fishing arrangements are viewed as beneficial (5.48)
   - Lack of fit with the parliamentary control framework: lack of clarity in authority (5.50)
   - The problem with barter (5.51)
   - Inappropriate use has been made of a non-tax revenue account (5.53)

Summing Up 5.55

Exhibits

5.1 Case 1. Quota Monitoring: Pacific Sablefish
5.2 Case 2. Quota Monitoring: Gulf of St. Lawrence
5.3 Case 3. Test Fishing: Pacific Roe Herring
5.4 Case 4. Test Fishing: Pacific Salmon

Innovation within the Parliamentary Control Framework

Introduction

5.6 Over time, government has established Royal Commissions and other reviews to examine the management practices of the public service. The most recent has resulted in a policy for public service reform to improve service to the public, Public Service (PS) 2000. The initiative was launched by the Prime Minister in December 1989 and is the subject of a Government White Paper, issued in December 1990, entitled *Public Service 2000 - The Renewal of the Public Service of Canada*.

5.7 The White Paper deals with approaches to improving human resource management and reforming management and administrative systems. It includes a significant message to program managers to improve the delivery of services despite constraints. The pressure to improve services with constrained resources has been with government managers for some time and is being addressed through efforts to increase productivity. As part of the PS2000 reform process, public servants are being challenged to further improve or increase services through innovative and creative changes to programming.

5.8 Initiatives to improve services often require new resources. These may be obtained through traditional means such as increased efficiency, reallocation of dollars and staff from other programs or through increased departmental appropriations in cases of particular urgency. Today, part of the challenge for public service managers is to find innovative ways of financing service improvements.

5.9 Government and the public service must discharge their responsibilities within the laws and framework provided by Parliament. The White Paper on Public Service 2000 establishes as a principle of management that any new approaches to improving services are expected to operate within this same framework. At the same time there is a conscious shift from a focus on being "error free" toward "risk-taking and innovation aimed at doing a better job."

5.10 The objectives of the PS2000 reform initiative are supported by our Office. The proposed changes are significant both in terms of the departments and agencies involved and the range of problems they address. Their implementation has just begun.

5.11 The White Paper recognizes that proposed changes will not be easy and will undoubtedly be accompanied by mistakes. To facilitate reform, it argues, a fundamental change in attitudes is required on the part of all public servants and those who deal with them.

Purpose of the Study

5.12 This Office has, on occasion, reported on difficulties related to effective implementation of financial management and control reforms. The purpose of the study is to address, early in the reform process, whether we believe that further consideration needs to be given to certain aspects of the reforms as they are being implemented. In particular, we examined the guidance being provided to managers on implementing the desired reforms while still meeting parliamentary control requirements.

5.13 We examined a number of initiatives that have been taken by managers in the Department of Fisheries and Oceans, in an attempt to change programs to improve services without drawing more funds from the Department's budgets. These initiatives originated prior to the publication of the White Paper. As well, we interviewed a number of managers to determine how they believed PS2000 supported these initiatives. We also examined the changing environment for public service managers and the guidance being provided to them as part of PS2000.

The Changing Environment for Public Service Managers

The challenge to improve services

5.14 The White Paper on Public Service 2000 and our Office argue that one of the obstacles to improving services is the government's complex set of personnel, administrative and financial rules and reporting requirements. The challenge faced by managers, under the government's new management philosophy, is how to improve service delivery with less emphasis on administration and control in a period of resource restraint. The thrust of the policy is to place more discretionary authority in the hands of individual public servants, who are to be held accountable for their actions. They are to be empowered and encouraged to be innovative to get the job done in the most efficient and effective way.

5.15 The reform is not intended to weaken parliamentary control; at the same time, it proposes to eliminate all but essential controls, as a means of providing more resources for the delivery of services. This includes reducing rules and decentralizing authority, while emphasizing the delivery of services, and the creation of a results-oriented culture. At the same time, management is expected to operate under existing parliamentary laws and control and accountability structures. Under this approach, managers are expected to have a common understanding of what is to be done, what requirements apply, and how they will be held accountable.

The dilemma for program managers

5.16 Information has been provided to managers on the philosophy of the cultural change involved. Changes to legislation and central agency policies are now taking place. Yet program managers must make immediate programming decisions based on the information available to them. In this environment of change, do they understand the effect these changes have on the way the principles of parliamentary control are to be applied? As they are making program decisions, do they know which controls will continue to apply and which will no longer apply? Or which controls Parliament expects to be applied?

The Parliamentary Control Framework

5.17 Under our system of government, the will of Parliament is supreme, as expressed through the laws it enacts, its appropriation of funds, and the limits it imposes on the funds it approves for government programs. The machinery of financial control to support the will of Parliament is the responsibility of government. Parliament sets the purposes of, and limits to, expenditures and government provides further guidance to public servants on the mechanisms to be used to meet these requirements.

5.18 A fundamental right of Parliament is to control the generation of revenue and its expenditure through the use of the Consolidated Revenue Fund. Parliament has exclusive control over the right to levy taxes and the authority to spend revenues. This means that all expenditures must be approved by Parliament; all revenues must be deposited to the Consolidated Revenue Fund; and an accurate and complete accounting for expenditures, revenues and what was achieved must be made to Parliament, and must be audited.

5.19 It is the responsibility of managers to implement and uphold both the letter and the spirit of the laws established by Parliament and related regulations. The laws themselves tend to be complex legal documents that set out the objectives for programs, often in general – not operational – terms. Government and its central agencies provide further guidance in the form of rules and guidelines and training on how to implement parliamentary direction and how to account to Parliament for expenditures against budgets, for revenues and for achievements.

Implementing administrative and management reform

5.20 Past efforts at administrative and management reform illustrate the challenge faced by government managers in taking reform recommendations and putting them into practice in government operations. Experience has shown how difficult it has been to meet the reform objectives. Among the factors that have been identified as contributing to these difficulties are the partial implementation of reform recommendations and a lack of understanding on the part of senior officials of the requirements of effective management and control of public funds.

Difficulty of putting reform into practice.

Progress in financial management

5.21 Government has been building on the lessons of the past. A 1987 study of financial management and control by this Office found some major improvement in control practices and procedures in departments (1987: 4.26). A follow-up audit in 1989 found further initiatives to improve financial management and control with several important measures still to be undertaken (1989: 25.56).

Effective Change

Adapting to cultural change

5.22 Social scientists who have studied how organizations manage change successfully point out that two important facets have to be taken into account. The first is that all members of the organization have to be committed to and understand the common goal that is to be achieved. The second is that they have to be provided with the means to accomplish the common goal.

5.23 For successful adaptation to the "new culture" in the public service, individual public servants need a clear sense of the extent to which both goals and the means for achieving them have changed. A poor fit between what is expected of managers and the means available to them for achieving it can result in undesirable solutions to problems ranging from unproductive approaches to developing initiatives that cannot be accommodated within existing control structures.

Need for consistent message on the requirements for parliamentary control in the new environment

5.24 Some of the documentation related to PS2000 presently being provided to public service managers on changing an organization's culture and motivating staff gives a conflicting message. There are instances where they are advised that adaptive and innovative organizations do not allow rules and procedures to stand in the way of results. Such general discretion on the part of public servants cannot always be reconciled with traditional requirements for parliamentary control. Suggestions in this documentation that public servants "dismantle constraints" or "work around constraints" or "bypass" or "escape" the system ought not to be applied in a way that undermines parliamentary control.

Managers need guidance.

5.25 Public servants are being motivated to be innovative, results-oriented, and willing to take risks. They also must know what continuing obligations have to be met, and how these are to be met. The information provided by government and the central agencies needs to provide guidance on how parliamentary control can be reconciled with implementing innovation in programming. Managers need to know who to contact for information and how to obtain approval and resolutions for what may appear to be an exception.

The dilemma for managers: reconciling innovation with parliamentary control

5.26 Other audits in this year's report have identified difficulties managers have experienced in implementing innovative programming. For example, in the Department of Agriculture managers have developed new and innovative farm safety-net programs based on federal-provincial agreements (10.29). However, existing safety-net programs based on similar agreements have presented problems for the Department in fully implementing important parliamentary financial controls (10.4 to 10.7).

5.27 To respond to both financial constraints and demands to improve services, managers at the Department of Fisheries and Oceans have been making programming changes. These initiatives all originated prior to the publication of the White Paper. Some began over 10 years ago; others were implemented this past year. These managers saw the PS2000 philosophy as supportive of the changes they had made in programming and financing to improve services.

5.28 The government has informed us that there are other cases in the Department of Fisheries and Oceans and other departments where managers have successfully reconciled innovation with the parliamentary control framework. The illustrations that follow, however, show the difficulties managers encountered in meeting the parliamentary control requirements they must satisfy with respect to:

- ensuring that programming changes meet the requirements of the Fisheries legislation and related regulations;
- ensuring that new ways of financing, such as barter, meet the requirements of the Financial Administration Act; and
- ensuring that Parliament is fully informed of how the Department's responsibilities are carried out and financed.

5.29 In some instances, central agencies have not developed mechanisms to meet these requirements; for example, on how to account for barter or other activities carried on outside of government. Guidance on how innovative practices can be reconciled with the requirement for parliamentary control and accountability would help to ensure that fundamental principles were not overlooked. It could be provided as one of the steps being taken to change the public service culture and would support further necessary steps to proper implementation. It could also help managers to responsibly manage risks.

Illustrations from the Department of Fisheries and Oceans

5.30 Like many other government departments, Fisheries and Oceans is feeling the pressure of resource constraints. While the demand for improvements in programs and services has continued to grow, budgets have been reduced.

5.31 The Department has a long tradition of working closely with fishermen and the fishing industry. Its decentralized structure permits close contact with its clientele and an understanding of its needs. Eighty-six percent of its staff is located outside headquarters in its six regions.

Innovation to improve service in the Department of Fisheries and Oceans.

5.32 Two innovative methods of program delivery that we reviewed are the new quota monitoring and test fishing initiatives. Quota monitoring is designed to support the enforcement of individual quotas. Test fishing is done to collect information on the quantities and maturity of fish to determine times for opening and closing the various fisheries. The Department undertook these initiatives for the benefit of the fishermen.

1. Quota Monitoring

Problem: how to improve management of the competitive fishery

5.33 Fish have traditionally been harvested on a competitive basis in Canada. Under this management approach, the Department of Fisheries and Oceans sets an overall quota, or a total allowable catch for a given species and lets all licensed fishermen compete for a share. The Department controls the opening of the fishery and closes it when it believes the limit of the allowable catch is reached. In this way it attempts to conserve fish stocks through limiting the length of time the fishery is open. In some fisheries, the race to catch the fish in the time allowed resulted in a lower value received for the product and led to increased and excessive catching capacity. As well, the race for the fish encouraged fishing in unsafe weather conditions. As a result, for those fisheries, seasons became shorter. For example, in the Pacific sablefish fishery in 1981, 2,900 tons were taken in a season lasting 245 days, while in 1989, 5,200 tons were taken in a season of 14 days.

One solution: change to individual quotas

5.34 One solution being increasingly turned to by fisheries managers to improve fisheries management is to set individual quotas for each licence holder. Managing in this way involves dividing the total allowable catch among all licensed fishermen, so that they each know their share before fishing begins. With this system, fishermen do not have the same incentive to overinvest in harvesting capacity or to catch as much as they can during a short fishing season. In addition, processors can more efficiently handle the catch. They can harvest their own quotas at their own pace, resulting in greater efficiency, safety and improved prices over a longer season.

The Department has the authority to initiate changes in fisheries management

5.35 The Minister of Fisheries and Oceans is charged with the responsibility of managing the fisheries under the Fisheries Act and the Fisheries Development Act. The Minister has the power, subject to the regulatory process and other legislative requirements, to implement a regime of individual quotas in those fisheries where it is deemed appropriate.

The requirement to finance increased monitoring cost

5.36 One of the implications of introducing individual quotas, however, is that monitoring and enforcement requirements increase. Instead of one overall quota, many individual quotas must be monitored. Since fishermen can reach the limits of their quotas at different times, greater costs are incurred in gathering information on the fish caught. If the Department itself were to conduct the additional monitoring activity, it would need additional resources or a reallocation of existing resources. Fisheries managers solved the problem by having the fishermen, as the direct beneficiaries, pay the costs of the increased monitoring requirements.

5.37 It was decided to encourage the establishment of private monitoring arrangements. The monitoring function is one which the Department could delegate to a third party with the appropriate arrangements in place. Private monitoring companies would weigh every catch before it went to the processor and provide data on the catches to the Department as specified. The monitoring activity was to be self-funded and self-administered; as well, participation was to be self-enforced by the fishermen. The Department intended to remain at arm's length to the arrangement by having the monitoring service provided directly to the fishermen by the private sector. In this way, the Department of Fisheries and Oceans believed that neither the restrictions on its ability to raise and spend funds nor the requirements of the regulatory process to control changes in licence fees would apply.

5.38 The Department implemented the program by establishing, through agreements, the obligations of private companies for monitoring. The Department withholds licences from fishermen until advance payments for

Exhibit 5.1

Case 1

QUOTA MONITORING: PACIFIC SABLEFISH

Individual vessel quotas were introduced in the Pacific sablefish fishery on a trial basis for the 1990 and 1991 fisheries. The catch for 1990 was 4,700 tons, with a landed value of $17.4 million. According to the Department, more than 90 percent of sablefish vessel owners voted in favour of individual quotas with stricter enforcement requirements, and agreed to pay the additional costs. The costs for monitoring individual quotas are estimated to be $203,000 for 1991.

A three-way agreement was signed between the Department of Fisheries and Oceans, the monitoring company and the fishermen. The fishermen must pay a monitoring fee directly to the company before they can obtain a licence. The company set up to carry out monitoring also takes samples from the catches it monitors and makes 24 trips a year to specified fishing areas for biological purposes at no direct cost to the Department. The Department has sole rights to publish the data obtained under the agreement.

Exhibit 5.2

Case 2

QUOTA MONITORING: GULF OF ST. LAWRENCE

Individual quotas have been introduced in the crab, shrimp and groundfish fisheries in the Gulf of St. Lawrence. The landings for 1990 were 7,720 tons, 15,346 tons and 84,216 tons with a value of $16.75 million, $16.26 million and $37.86 million respectively. The Department of Fisheries and Oceans believes it has the agreement of the majority of the licensed fishermen in these fisheries to change to individual quotas even though there is a greater cost to them. It is estimated that approximately $1.7 million of costs associated with monitoring these quotas will be paid for directly by the fishermen beginning in 1991.

The Department has signed an agreement with a number of private monitoring companies. The fishermen pay their monitoring fees directly to one of the companies before they can obtain a licence. The monitoring companies will hire monitors and staff to carry out the monitoring and weighing functions. The Department receives data from the private companies in a form it has prescribed. It does not pay the companies directly but in one case has provided a private company with office accommodation at no cost.

monitoring are made. Thus the fishermen, if they want to obtain their licences, must fund the monitoring activity (see Cases 1 and 2).

Individual quotas are seen as beneficial

5.39 The Department believes the move to individual quotas has the support of most of the fishermen involved. In implementing this system, Fisheries and Oceans has met a number of its objectives. One of these is to involve the fishermen in managing the resource, which in turn improves the credibility and acceptance of fisheries management decisions. The Department believes that significant program benefits have been realized in the cases of the Pacific Sablefish and affected Gulf of St. Lawrence fisheries. However, the manner in which this initiative has been implemented raises a number of concerns.

Lack of fit with the parliamentary control framework

5.40 The financing of these individual quota monitoring arrangements is not "at arms length" - that is, exclusively provided by the private sector - as planned. In these cases, the Department has ensured the payment of the fees by making proof of advance payment a condition of obtaining a licence. It is also often instrumental in setting the fees that fishermen will pay the private company. Fisheries and Oceans managers believed this additional support was required to ensure the program's initial success and monitoring companies' longer term survival.

5.41 Since this service was being provided by the private sector, the Department did not consider it necessary to clarify the regulations related to generating or spending revenue. However, its exclusive right to grant fishing licences was used to ensure that funds were paid to a third party as a prerequisite to fishermen obtaining their licences. As a result, it was not clear whether these funds should have been deposited in the Consolidated Revenue Fund as an additional licence fee. Under the current arrangement, the revenues are not completely outside of government, nor are they subject to parliamentary controls for collection, spending and accounting. While departmental managers believed that the arrangements were appropriate, changes were being planned to address the above concerns.

Full costs are not reported to Parliament

5.42 The nature of the arrangement and the full costs have not been reported to Parliament. Part III of the Department's 1991-92 Estimates identifies monitoring of individual quotas and collection of data as key components of the enforcement of regulations. The establishment of individual quotas for sablefish and its cost is mentioned in the supplementary information. The implementation of individual quotas is also mentioned as an achievement of Atlantic fisheries management. However, there is no disclosure of the estimated costs of monitoring the quotas in the case of the Gulf of St. Lawrence, expected to be paid in 1991 by fishermen as a condition of obtaining a licence.

2. Test Fishing

Problem: how to gather essential data using fewer resources

5.43 Data on all aspects of the fisheries resource are essential to fisheries management. The Department needs information on abundance, migration and spawning patterns for fisheries management purposes such as determining how many fish can be harvested. The fishermen also have an interest in knowing where fish are, and their quantity, size and maturity.

One solution: contract test fishing out to fishermen

5.44 Testing the fish stocks requires specialized equipment and vessels, as well as skippers and crew who are competent in the waters and in the fishery. These resources are needed at specific times of the year, often for short periods. To meet these requirements without increasing the number of government vessels and crews, the Department has chartered experienced fishermen and their boats.

5.45 These individual charters can be expensive, particularly in cases where fishermen under contract are not able to participate in the commercial fishery. For example, individual charters to carry out testing in the herring roe fishery on the west coast can range in value from $174,000 to $230,000 per charter (1990).

5.46 With traditional financing approaches apparently closed to them, the Department's managers developed an alternative approach to financing test fishing by granting special fishing access to participating fishermen. Part or all of the costs of conducting the test fishing are paid by allowing the participating fishermen special access to the fishery, when others are not allowed to fish. In addition, guarantees often provide assurance that the estimated costs to the fishermen of test fishing charters will be fully covered, with the Department receiving any surplus (see Cases 3 and 4).

5.47 As appropriations become more limited, this approach to financing fish management requirements has increasing appeal. For example, the value of test fishing charters for salmon has increased from $0.5 million in 1980-81 to $1.4 million in 1989-90 (constant dollars) in the Pacific region.

Test fishing arrangements are viewed as beneficial

5.48 The advantages of proceeding with test fishing under the chartering option are persuasive to Department of Fisheries and Oceans managers. The Department can meet the information needs of its clients and managers. It also provides the Department with a means of using experienced fishermen with the needed equipment. This has the added advantage that the Department does not make

Exhibit 5.3

Case 3

TEST FISHING:
PACIFIC ROE HERRING

In the Pacific roe herring fishery, the value of the catch depends on the maturity of the roe and market conditions. Timing is therefore critical in this fishery. Once the roe is determined to be at its greatest value, the fishery is opened. Traditionally this fishery has a very short duration. In 1989, the landed value of the fishery was approximately $64 million for 42,000 tons.

Under a contractual arrangement, licensed fishermen take a small number of fish for the Department of Fisheries and Oceans to test the maturity of the roe before the season is opened. When the tests show the roe to be at its best, the competitive fishery is opened. The fishermen contracted to take the test fish do not participate in the competitive fishery.

Following the closure of the competitive fishery, fishermen who were contracted to take the test fish are permitted to take a quantity of fish as payment. This quantity is specified in the contract. If more than the contracted quantity is caught by an individual fisherman, the surplus becomes the property of the Department. If less than the contracted quantity is caught, The Department guarantees the difference to the fisherman.

In 1990, a total of 2,335 tons of herring were caught to pay for test fishing contracts, valued at $3.3 million.

Exhibit 5.4

Case 4

TEST FISHING:
PACIFIC SALMON

The Pacific salmon fishery coincides with the annual migration of fish from the ocean to individual river systems on the B.C. coast. It is important that fishermen know exactly when fish are migrating to specific rivers. The Department of Fisheries and Oceans needs to know how many fish are present at various locations, so catch limits can be established. In 1989, the landed value of the fishery was approximately $220 million for 97,800 tons.

The Department issues contracts to licensed fishermen to conduct tests to measure the volume of fish moving into specific river systems before the season is opened. The opening of the competitive fishery is based on the results. The contracted fishermen are often permitted to participate in the competitive fishery.

The fishermen contracted to conduct the test fishing are permitted to keep a specified amount of fish caught during the tests as payment. This amount is specified in the contract. If more than the specified amount is caught by an individual fisherman, the surplus becomes the property of the Department. If less than the specified amount is caught, the Department guarantees the difference to the fisherman.

In 1990, a total of 622 tons of Pacific salmon were caught to pay for test fishing contracts, valued at $1.4 million.

unrealistic demands on its own vessels and crews, thereby remaining operationally flexible. By financing the charters with fish, the Department does not draw on its operation and maintenance funds.

5.49 The Department argues that significant program benefits have been realized. For example, in 1988, Pacific herring on the Canadian coast sold for approximately $2,630 Canadian a ton compared to approximately $1,216 Canadian a ton for the same type of fish in Alaska. However, the way this initiative has been implemented and financed raises a number of control and accountability concerns.

Lack of fit with the parliamentary control framework: lack of clarity in the authority

5.50 We raised questions in 1983 about the appropriateness of using the fisheries resource to pay for chartering vessels. The Department obtained conflicting legal opinions. It is not clear that Parliament has provided the Department of Fisheries and Oceans with the right to pay for services either in fish or by allowing fishermen special access to fish. This situation was never clarified. Nor did it provide guidance for its managers on the circumstances in which the approach could be used and still satisfy the legislation. As a result, managers interpreted their options in different ways. Managers and staff in the Pacific believed that the problems raised in the past had been addressed through procedural changes, and continued the practice. Other regions, for the most part, were still not convinced that the practice was allowable. Recognizing that there are differing views on this matter, Fisheries and Oceans has indicated that it is taking steps to clarify the way it conducts test fishing to alleviate any concerns.

The problem with barter

5.51 In providing fish or special fishing rights to some fishermen in return for their services, the Department, in our opinion, has essentially used a form of barter. The quantity of fish allowed to each fisherman in return for specified testing is set out in a contract. These contracts with the fishermen are the means the Department uses to formalize the practice.

5.52 Barter is not covered by the traditional parliamentary control practices and procedures of the Government of Canada. This means that the test fishing activity takes place largely outside the existing framework of parliamentary control and accountability. The contracts with test fishermen determine the quantity of fish that may be caught and set the conditions of the barter arrangement by providing a basis for determining its value. Value expressed in terms of access to amounts of fish is outside of the existing framework for controlling and accounting for departmental transactions. It requires special practices for control and accounting.

Inappropriate use has been made of a non-tax revenue account

5.53 Where there have been surpluses under the contracts, the funds have been deposited in a Department of Fisheries and Oceans non-tax revenue account. Regional officials have, without proper authorization as required by the Financial Administration Act, paid for contract deficits out of this account. In this way, the region has been able to make each test fishery pay for itself without using appropriated funds. In 1990, the Department made payments from the non-tax revenue account totalling $319,242. In developing these mechanisms to accommodate the barter arrangement, the Department is operating the non-tax revenue account like a revolving fund without having the authority to do so. The Department recognizes that the use of this account was improper and has discontinued its use.

5.54 The value of the test fishing is reported in Part III of the Department's 1991-92 Estimates but has not been reported systematically in the past. This type of reporting does not meet the requirements of parliamentary control and accountability. Parliament has not approved the expenditure as part of the budget, or received a full report of revenues and expenditures compared with budgets, or of results achieved.

Summing Up

5.55 As part of the government's new management philosophy, a great deal of emphasis has been placed on changing the organizational culture. Much has been written and said about the importance of changing the pattern of shared beliefs, assumptions and behaviour that members of government organizations acquire over time. The same emphasis has not been placed on providing public servants with guidance on how to cope with the requirements of parliamentary control in this new environment.

5.56 The challenge for public service managers is to improve service within the framework approved by Parliament. With the pressures to deliver programs with fewer resources, the incentive to finance new initiatives other than by appropriations is strong. As part of the PS2000 White Paper, reform of the financial resource management system is proposed. A number of amendments to the Financial Administration Act have already been put in place. The challenge is how to use new financing initiatives to improve service, while ensuring that essential control and accountability requirements are met.

5.57 Our examples illustrate initiatives by Department of Fisheries and Oceans managers on both the Atlantic and Pacific coasts to improve the delivery of services at a lower cost to taxpayers. They show the commitment of public servants to improving programming, getting the job done and meeting the needs of the fishermen, while minimizing the public funds spent by the Department. Public servants at Fisheries and Oceans have been innovative in their solutions to improving service, which they implemented with good intentions. They feel current reform initiatives of Public Service 2000 support their initiative and the risks they have taken.

5.58 However, because of the particular approach that fisheries managers have chosen in implementing these solutions and financing them, they do not in our opinion satisfy the requirements for parliamentary control. Despite their successful aspects, these cases in our opinion are examples of departures from current practice.

Challenge to improve service within the parliamentary framework.

5.59 DFO managers remain highly committed to improving services to the fishermen and the industry, as well as meeting their parliamentary obligations. They are in the process of reviewing the cases that have been described, to ensure that there is no doubt that all requirements are met. A number of different programming approaches are being examined in consultation with the client groups.

5.60 Some potential solutions to reconciling the financing of the initiatives in our illustrations with the parliamentary control structure may lie in such financing instruments as vote netting or revolving funds provided for in the recent amendments to the Financial Administration Act. Guidance needs to be provided to managers on how, and in what circumstances, these may be used. Managers also need to know how approvals can be obtained for such instruments and how to report their use to Parliament.

Response on behalf of government:
Innovation and responsible risk-taking constitute the core themes of the Government's commitment to the renewal of the Public Service through Public Service 2000. In the Public Service 2000 White Paper, the government left no doubt that ". . . there must be greater freedom to innovate and make the best possible use of scarce resources (and) if there is not, the Public Service . . . will not be capable of serving Canada and Canadians effectively." The White Paper went on to say that this would require ". . . fundamental changes in attitudes by Public Servants, by Ministers, by Parliamentarians and ultimately by the public." In short, the achievement of the goals of Public Service 2000 will require a lot of effort by many. The support of the Office of the Auditor General expressed in this chapter is a welcome contribution to that effort. The Government looks forward to working with the Office in bringing about the fundamental changes in attitude that will be required.

In order to encourage entrepreneurial innovation and responsible risk-taking, Public Service 2000 recognizes the need to streamline administrative, financial, and personnel practices, and to remove ineffective or redundant controls ". . . to ensure that the only rules are good and necessary rules." Basic principles of Parliamentary accountability will, as a result, be emphasized as Public Service 2000 is pushed forward. The examples cited in this chapter were initiated before the Public Service 2000 initiative. As Public Service 2000 proceeds, essential rules will be highlighted so that managers can more ably avoid pitfalls in reconciling innovative initiatives with the Parliamentary accountability framework. In the words of the White Paper, "As Public Service 2000 simplifies the Public Service's administration . . . the importance of effective accountability based on shared values is going to become correspondingly greater."

The Government is convinced that the Parliamentary accountability framework affords substantial scope for innovation and responsible risk-taking. Recognizing, however, that the ultimate authority and accountability requirements governing the Public Service rest with Parliament, the Government also suggested in the White Paper that

Parliamentarians could themselves consider changes to further the aims of Public Service 2000. In this vein, a significant contribution could come from examining the Parliamentary accountability framework to ensure that it is consistent with the changing management environment in the Public Service and that it properly reflects the needs of Parliamentarians in relation to the changes taking place. For example, substantial improvements in reporting through the Estimates have been made in the last decade. These improvements potentially offer a basis for building increased flexibility into the Parliamentary accountability framework. Much of the current framework was conceived at a time when Parliament depended on a large body of legislation and regulations to ensure that its intent would be respected. With the improvements to the reporting regime, however, Parliamentarians are much more aware of both planned expenditures and results achieved. Ample opportunity exists, for Parliamentarians and others, to delve into program areas both within individual departments and across the government to ensure that the purposes for which funds are appropriated are achieved. This, combined with Regulatory Reform and Access to Information legislation, has resulted in a Public Service that is more open and visible that at any previous time.

The Treasury Board Secretariat and the Office of the Comptroller General would welcome the opportunity to collaborate with the Office of the Auditor General in identifying opportunities to strengthen or refine the Parliamentary accountability framework. This would involve breaking new ground by challenging those structures and processes which are redundant or which inhibit cost effective delivery of services to the public. Accountability to Parliament will be strengthened, not reduced, by measures aimed at making the framework more responsive to the needs both of Parliamentarians and of federal departments and agencies, in the interest ultimately of the people of Canada.

Government-wide and Special Audits

The following Government-wide and Special Audits have been conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

Chapter 6

Capital Projects - Department of Public Works
Quality in the Constructed Project

Capital Projects

Department of Public Works
Quality in the Constructed Project

Main Points

6.1 The real estate portfolio of the Government of Canada is estimated to be worth $60 billion, a significant percentage of the net national debt (paragraph 6.11).

6.2 In this first assessment by our Office of the quality of these assets, two general-purpose office buildings were examined on a pilot basis to develop and test methodology (6.17 and 6.18).

6.3 The methodology developed and field-tested can be employed, with few modifications, in the future audit of buildings and building condition reports forming part of the Department of Public Works and other departments' asset management plans (6.18).

6.4 Both buildings were found to be generally designed and constructed to commercial standards commonly in effect at the time (6.21 and 6.78).

6.5 Breaches of the National Fire Code in both buildings audited raise questions about their design, construction, inspection, commissioning and operational management (6.21 to 6.23, 6.59 to 6.67 and 6.87 to 6.92).

6.6 There is no complete fire safety plan for either building (6.67 and 6.92).

6.7 Large precast concrete panels in the uppermost part of the envelope of one building are cracked, and the panel anchors are corroding (6.26 and 6.49).

6.8 Both buildings have features that make accessibility for the handicapped unnecessarily difficult and do not fully comply with the government's policy on ease of access (6.21, 6.24, 6.25, 6.68 to 6.72 and 6.93 to 6.95).

6.9 The heating, ventilation and air conditioning of one building cost $5.9 million more than other more economical and efficient systems available at the time of construction (6.28 and 6.29).

6.10 Air quality, lighting, acoustics and functional deficiencies exist in both buildings (6.50 to 6.54, 6.56, 6.58, 6.68 to 6.74, 6.83 to 6.86 and 6.93 to 6.96).

Table of Contents

Paragraph

General Background 6.11

Audit Objectives 6.17

Audit Scope 6.18

Criteria 6.20

General Observations and Recommendations 6.21

Case Study #1: Place du Portage, Phase IV, Hull, Quebec

Background 6.40
Observations 6.47

Case Study #2: Lionel Chevrier Building, Cornwall, Ontario

Background 6.75
Observations 6.78

Exhibit

6.1 Opportunity to Influence Project Quality and Cost

Capital Projects

Department of Public Works
Quality in the Constructed Project

General Background

6.11 Since the value of the real estate assets of the federal government is approximately $60 billion, we considered it important to determine the quality of these assets. Did the government get what it paid for as defined by the project requirements and specifications, building regulations and its own declared policies?

6.12 Past audit findings with respect to the acquisition, quality and materiel management of major capital assets indicated the need for the Office of the Auditor General to develop a methodology for examining and reporting to Parliament on quality in constructed projects.

6.13 The National Capital Region of the Department of Public Works (DPW) is responsible for 48 Crown-owned, 145 leased and 5 so-called lease-purchased office buildings. A rough estimate suggests that the owned property alone is worth approximately $4 billion today.

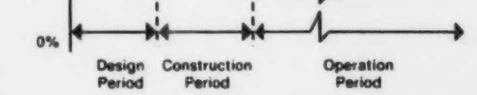
6.14 In addition to the capital cost, the Department has a significant, but as yet unquantified, implicit commitment of future expenditures to repair and modernize these buildings to meet current demands for an adequate working environment and for access by the handicapped staff and members of the public served. For the purposes of this audit, quality has been defined as the durability of a building and its ability to satisfy the given needs of its users, including ensuring their health and safety and providing an environment that is conducive to maximum productivity. Quality depends on the building structure, the exterior envelope, acoustics, air quality, lighting, fire safety, and internal layout and function.

6.15 Serviceability and durability are partially defined by general standards of public safety, standards and costs of actual performance, and the environmental adequacy of working conditions.

6.16 Although the design is only about two percent of the total cost of ownership of a typical office building, inadequate concern with quality and performance characteristics during design and construction will raise operating costs throughout the working life of the building.

Exhibit 6.1

OPPORTUNITY TO INFLUENCE PROJECT QUALITY AND COST



Source: American Society of Civil Engineers

Audit Objectives

6.17 The objectives of this audit were to determine whether the Government of Canada obtained specified quality at reasonable value for money in its acquisition of two general-purpose office buildings and to develop a methodology for future audits of this nature.

Audit Scope

6.18 In the absence of a generally accepted methodology for this type of audit, we sought the advice of the Institute for Research in Construction of the National Research Council, whose professional staff developed the "protocols" or assessment procedures. In accordance with OAG normal practice, we contracted specialists from the private sector to test this new audit approach on a small sample of buildings. To make doubly sure that our approach was valid and workable, the individual technical reports were reviewed by the professionals from the Institute for Research in Construction.

6.19 As this was a pilot audit, only two buildings were examined. These were selected by DPW from the National Capital Region portfolio. One was Phase IV of Place du Portage in Hull, a 15-storey reinforced concrete building completed in 1979, with a gross floor area of 112,000 square metres accommodating 4,000 public servants, including the headquarters of the National Capital Region of DPW. The other was the Lionel Chevrier Building in Cornwall, a 3-storey reinforced concrete building completed in 1984, with a gross floor area of 10,000 square metres accommodating some 300 public servants.

Criteria

6.20 The quality -- serviceability and durability -- of the buildings relates to three different levels of performance.

Level 1. The minimum legal level of performance or standard practice in regard to health, safety and structural integrity required to satisfy building codes and standards in force at the time of construction.

Level 2. The level of performance specified in the design objectives or accepted current practice. This performance level was stated in the DPW project control documents.

Codes

- National Building Code of Canada (NBC)
- National Fire Code of Canada (NFC)
- Canadian Labour Code
- Occupational Health and Safety Act
- National Fire Protection Agency

Standards of Practice

- Flat Glass Manufacturers' Association Design Manual
- Architectural Aluminum Manufacturers' Association Design Manual
- Canadian Roofing Contractors' Association Roofing Manual
- American Society of Heating, Refrigeration, and Air Conditioning Engineers Standard 62, Ventilation for Acceptable Air Quality Heating, Ventilating and Air Conditioning and the Society's Handbook, Chapter 52 (guidelines for acoustic performance)
- Illuminating Engineering Society Handbook
- Office Ergonomics, Canadian Standards Association Z412-M89
- NBC Supplement No. 5, Building Standards for the Handicapped
- Insulated Glass Manufacturers' Association of Canada Manual

Level 3. The level of performance achieved in the occupied building.

General Observations and Recommendations

6.21 We found that the two buildings audited were generally designed and constructed to commercial standards commonly in effect at the time in most urban centres in Canada. However, two areas of concern need to be addressed in the immediate future:

- Breaches of the National Fire Code (NFC)
- Accessibility for the handicapped

6.22 **Breaches of the NFC.** These breaches raise questions about the process of design and review, inspection of construction, commissioning or acceptance inspection, and even ongoing building management. The most serious findings were in Place du Portage, Phase IV, where a fuel pipe connecting the emergency generator with the fuel storage tank passes through an exit stair. The lack of explosion relief provisions for the electrical equipment vaults, fire dampers in the stairwell pressurization ducts, and a vestibule for the fuel tank room, plus the presence of electrical and mechanical services in stairwells and gaps in corridor walls, create a potentially life-threatening situation.

6.23 DPW referred these observations to Labour Canada (the successor to the Dominion Fire Commissioner), which gave general support to the audit findings. DPW took immediate action on the breaches to the NFC. DPW plans to take phased action on other findings or to investigate them. We have been assured that Labour Canada will ensure compliance with the Codes.

6.24 **Accessibility for the handicapped.** Both buildings were found to have features that impede accessibility for the handicapped, whether employees or clients of the government, and breached not only the National Building Code (NBC) in effect at the time of construction but also the subsequent Treasury Board directives for improving accessibility in existing government buildings, specifically with respect to wheelchair ramps, washrooms, door hardware, wayfinding and car parking.

6.25 DPW has indicated that it will take action on the audit findings to improve accessibility for the handicapped and is presently implementing the Treasury Board's revised policy on accessibility, which requires the Department to complete improvements by July 1994.

6.26 The assessment of the building envelope audit of Phase IV revealed two problems. Many of the 79 large (30 ft. x 5 ft.) precast concrete panels enclosing the two uppermost floors of the building are cracked and bowed; the precast panel anchors along the parapet are corroded.

> *"Quality is never an accident. It is always the result of high intention, sincere effort, intelligent direction, and skilful execution. It represents the wise choice of many alternatives."*
>
> *Anonymous*

6.27 We recommended that DPW conduct a detailed examination of the design and condition of these panels, and this has been undertaken by the Department's structural engineers. The engineers have recommended sealing the panel cracks and monitoring the situation, which they believe does not constitute a problem with respect to the structural integrity of the panels.

6.28 The heating, ventilation and air-conditioning system of Phase IV was not designed for economy and efficiency. The dual-duct system, when compared with alternative systems available at the time of project design, resulted in increased capital costs of $2 million, additional floor space requirements of over 5,000 square metres at a cost of $3.9 million, and a 24 percent increase in energy consumption. The air-conditioning system in the atrium, a public area, cannot be used because it interferes with the airflow between Phase IV and Phase III.

6.29 The DPW engineer's analysis did not support the selection of the dual-duct design, as indicated in the following response to the audit observation:

> ***"After extensive review and debate, the Department accepted the consultant's recommended dual-duct system, with modifications to improve performance and operating costs, because the consultants carried the professional/legal liability provided in the Province of Quebec. This is one of those rare instances where the consultant's recommendation is not consistent with the Department's position and the Department feels compelled to concede to the***

consultant's responsibility in the face of concerns about jurisprudence in similar situations."

6.30 DPW should examine the dual-duct system installed in Place du Portage, Phase IV, with the objective of modifying the system's operations to achieve greater economy.

6.31 No life-cycle cost analysis had been done for either building; nor could we obtain any evidence that professional staff with experience in commissioning and operations had considered the serviceability of the building components at the design stage.

6.32 DPW should ensure that proper life-cycle cost analyses are prepared, as called for in the Treasury Board Administration Policy Manual, before any significant investments are undertaken. This recommendation has been made in several reports by this Office.

6.33 DPW should obtain advice from commissioning or building operation staff at the initial design stage on the serviceability of building components.

6.34 DPW should obtain an independent review of design with respect to building function and choice of major building services (for example, heating, ventilating and air conditioning) before accepting a final design, especially when the Department's professionals disagree with the prime consultant appointed for the project.

6.35 The finished buildings are inadequate with respect to acoustic design, for example, in the computer rooms and studios.

6.36 DPW should consider involving acoustics specialists in the initial building design stages.

6.37 No formalized long-term plans for capital requirements to replace major building components and services exist for either building.

6.38 DPW should prepare long-term repair and replacement plans for building components and structures on the basis of life-cycle cost analysis.

6.39 There were some 108 reportable findings in the audit of the major building elements, services and functions, 15 of which were considered in need of immediate attention. DPW took immediate action on these findings, has planned remedial action on 40 of them, and will further investigate the remaining findings for possible action or incorporation into new construction projects.

***Department's response**: The Department agrees with all the recommendations in the report. Public Works has taken action, or plans to do so, on most of the observations raised in the report.*

Case Study #1: Place du Portage, Phase IV, Hull, Quebec

Background

6.40 Place du Portage is a complex of four buildings erected to meet the government's objective of locating 25 percent of its office accommodation in Hull. Phase IV of the complex was built in 1979 at a cost of $80 million.

6.41 Phase IV is a 15-storey, reinforced concrete, framed structure of 112,000 square metres, providing office accommodation for 4,000 public servants.

6.42 Standards for the base building were determined by the requirements of the applicable codes, the Treasury Board standards for accommodation, a DPW design brief and supplementary instructions. NBC provisions for the handicapped were to be followed throughout, except in service and storage areas.

6.43 An energy conservation analysis was performed by DPW's Energy Analysis Group,

This is the Place du Portage Complex. Phase IV is in the foreground (see paragraphs 6.40 and 6.41).

which examined building services alternatives with the "Meriwether Model", a computer program developed in the private sector with DPW sponsorship.

6.44 The project was completed under DPW's Project Management design and construction procedures. This comprehensive process of establishing the requirements, preparing the preliminary designs, drawing up the contract documents and constructing the building was compressed into overlapping stages for a total approved sum of $80 million. Design and inspection services were performed by the private sector under contract with DPW.

6.45 On completion, Phase IV was commissioned by DPW in accordance with the DPW Project Delivery System. The commissioning report stated that the building was well designed and constructed.

6.46 Appropriate practising professionals conducted our audit, following the protocols developed by the Institute for Research in Construction. It involved document review (pre- and post-occupancy), user survey, physical inspection, and the employment of portable, non-destructive testing equipment.

Observations

Building structure

6.47 An isolated area on the 10th floor is used for storage. The imposed load on this floor is greater than the design live load. Heavy loads in the printing room have caused cracks in the floor slab.

6.48 Water leaking through the expansion joint in the basement between Phases III and IV may cause corrosion of the reinforcing steel.

Building envelope

6.49 Some precast panel anchors at the parapet level are corroding, and some of the precast panels on the top floor are cracked and bowed.

Acoustics

6.50 Acoustical design goals, such as speech privacy in open offices, conference rooms, and executive offices, were not fully considered in the design briefs for the building.

6.51 Background sound levels measured in the television studio were found to be at RC35, well above acceptable levels of RC20 to RC25, thereby reducing its utility. The noise level of 80 dBA measured in the computer room was also found to be above acceptable levels.

Lighting

6.52 Deficiencies in measured lighting levels were found in high-density work stations and enclosed offices. Additional task lighting is required in some areas.

6.53 The location of light switches in central areas preclude their easy use to reduce perimeter lighting when it is not needed.

6.54 Lack of automatic lighting controls prevents potential energy savings by tighter scheduling of off-periods, particularly after working hours when cleaners are not present on every floor.

Ventilation

6.55 Ventilation is provided by five major dual-duct systems.

6.56 Lack of ventilation in the atrium, a public area, is compounded by the concentration of cooking odours and cigarette smoke. The main air- conditioning system cannot be activated because of its interference with air transfer to Phase III of the complex.

6.57 The heating, ventilation and air-conditioning units that serve floors 2 to 6, the first floor and the mall are not capable of handling the ever-growing cooling load required with the increasing use of personal computers and computer terminals.

6.58 The dual-duct system installed in this building (separate cold-air and hot-air distribution systems) is less economical to build and operate than a conventional single-duct system, due to simultaneous heating and cooling and higher fan capacities required.

Fire safety

6.59 Phase IV is a group "D" major occupancy building under the NBC. It has a sprinkler and fire-alarm system. The following deficiencies were noted during the audit:

6.60 **Architectural elements**. Several factors contravene the Building Code. Air supply ducts for stairwell pressurization are not properly fire-separated and do not incorporate fire dampers. The exit from one stairway is through the main mall area to an exterior door. The escape route to the exterior of the building is too close to an adjacent window (less than three metres) to provide safe egress. The parking garage is not separated from the remainder of the building by the required 1 1/2-hour fire separation provision. Several exit stairways contain mechanical and electrical equipment serving other areas.

6.61 **Mechanical elements.** Although most of the building is sprinklered, the following areas are not: beneath suspended stairs; elevator machine rooms; top landing of stairs; electrical rooms; elevator lobby at level 02; and concealed spaces beneath the raised floors, which are considered combustible. Labour Canada excludes halon-protected raised floors and suspension stairs from sprinkler requirements. Some sprinkler heads in the parking garage were positioned less than six feet from one another. No baffles are present between sprinkler heads. This arrangement does not ensure adequate fire protection.

6.62 The halon discharge nozzle locations in the central alarm and control facility will not provide adequate dispersal of the extinguishing agent within the room because of numerous penetrations above the ceiling into the adjacent electrical room to accommodate pipes, cables and ducts. The halon effectiveness of the computer room cannot be assured because of the perforated openings in the raised floor panels. Protection is provided above the raised floor only by a ceiling level sprinkler system. Labour Canada has no testing requirements for existing halon-protected facilities.

6.63 Centralized record keeping is required for all fire safety systems in order to ensure that the appropriate inspections, maintenance procedures, tests and checks are conducted in accordance with the National Fire Code. We could find no records to indicate that pump tests required by the NFC had been performed within the previous 12 months.

6.64 The transformers in the vault contain polychlorinated biphenyls (PCBs). Explosion venting is required to conform with the 1990 National Building Code. No explosion relief provisions are in effect for the electrical equipment vaults. The Department will need to consult the Department of the Environment and Labour Canada, which have separate jurisdiction in this matter.

6.65 **Electrical elements.** Fuel piping between the emergency generator and the storage tank passes through an exit stairway. This piping should not be located within the stairway enclosure. In addition, access to the fuel storage tank is directly from the stairway instead of through a vestibule.

6.66 No smoke detectors are installed in public areas at draft stops or at the perimeter of interconnected floor spaces. Where a floor area exits to a stairwell, a manual pull station should be located adjacent to the exit door, not within the stairwell, as found in one case.

6.67 **Fire safety plan.** There is no single document that consolidates fire safety planning, training, inspection and test procedures, and record keeping for fire protection systems and equipment.

Function

6.68 Special attention was paid to the needs of the mobility, visually, hearing, developmentally and situationally impaired as well as the average able-bodied user.

6.69 A basic limitation of the building design from the user point of view is the general complexity of the building form and the size and configuration of the various floors. Most of the upper floors are laid out utilizing the open-office concept with five-foot-high divider screens. While this does not represent a basic building problem, this divider system has added to wayfinding dilemmas, particularly for the visually impaired, due to the frequent reconfiguration of office and work space layouts and their variation from floor to floor.

6.70 Another complexity can be tied to the exterior wall profile and floor plan configuration. Many perimeter work spaces have had to be adjusted from the traditional rectangular form to a triangular form. Typically, a 90-cm-wide walking space is being maintained at external walls, which has resulted in a considerable loss of usable area.

6.71 The needs of the mobility-impaired were considered in all primary circulation routes and staff support areas. However, a number of shortfalls relate directly to the NBC. For example, ramps that provide primary access to the building are not directly visible, nor do they meet the requirements for handrails. Accessible washrooms have toilet stall doors that open out but do not lie flat against the wall and therefore are a hazard to the visually impaired. Basins in accessible washrooms are inappropriate. In some cases the knee space below the counter is insufficient. Certain vestibules are of insufficient depth to allow free movement between the doors by wheelchair users. There are no accessible parking spaces in the parking garage or at either of the two entrances for disabled users arriving by personal vehicle or special transportation. Staircase handrails do not extend sufficiently beyond the top and bottom risers, and in exit stairs only a central handrail is provided. Doors at the bottom of exit stairs are locked or not usable, except in an emergency situation (for security reasons).

6.72 Deficiencies revealed in the building structure, building envelope, acoustics properties, lighting quality and ventilation systems, as well as NFC breaches and functional shortcomings with respect to areas for the handicapped, should be examined and remedied by DPW.

6.73 The acoustical characteristics of buildings would be improved by including an acoustics specialist on the design team, setting out design goals, developing a well-integrated acoustical design methodology and adequately executing details of the design.

6.74 The design brief provided minimum references for the base building lighting, with no reference to the fit-up of work stations and tenant activities. Co-ordination at the design stage, between the design group and the potential user, where identified, would minimize future shortcomings of this nature.

Case Study #2: Lionel Chevrier Building, Cornwall, Ontario

Background

6.75 The 1.27-hectare parcel of land on which the Lionel Chevrier Building stands was acquired from the City of Cornwall in June 1982 in exchange for 4.91 hectares of Crown land on the waterfront opposite Horovitz Park, which is now occupied by the Cornwall Civic Centre. DPW appraised the value of the Crown land at $275,000 and Horovitz Park (re-zoned by the City for the government office building) at $280,000.

6.76 Seven developers submitted bids for the building, including its design. The proposals were evaluated by DPW. The successful developer commenced construction in June 1983 and completed the project in May 1984 at a base cost of $9.6 million. With fit-up, costs totalled $10.4 million. The building was occupied in June 1984.

6.77 The Lionel Chevrier Building is a three-storey reinforced concrete, framed structure, covering 9,364 square metres.

Observations

6.78 DPW established a team to monitor this project, while the developer was given the responsibility to manage and co-ordinate the work. Quality control was defined through specifications, standards and policies in effect at the time, and inspection services were contracted by the developer. The building was completed within schedule and budget and is considered to be well designed and constructed.

Lionel Chevrier Building, Cornwall, Ontario (see paragraphs 6.75 to 6.77).

6.79 In accordance with the contract, construction records were retained for only two years following completion of the project in 1984. Thus no inspection reports were available for the audit.

6.80 The technical audit of the Lionel Chevrier Building was conducted in accordance with the protocols developed by the Institute for Research in Construction.

Building structure

6.81 No major issues arose from the audit.

Building envelope

6.82 No major issues arose from the audit.

Acoustics

6.83 Speech privacy of open-plan offices was found to be inadequate, largely because of the ceiling tile and the acoustic reflection from ceiling light fittings and the ventilation diffusors. Lack of careful acoustic design of the conference rooms has resulted in poor oral communication.

6.84 The sound studio acoustics are below the standards specified; the major tenant cannot use the studio for its intended purpose and is obliged to do audio-visual work in another building.

Lighting

6.85 The extensive use of partitions to create small work stations puts the level of illumination below design specifications. A secondary cause of light loss is the maintenance practice of spot-relamping, in which lamps are allowed to gradually burn out rather than being replaced on a regular basis.

Ventilation

6.86 Many areas of the building suffer from lack of air distribution. This shows in both high ambient temperatures and poor air quality. Normal practice with tenant space reorganization would be to modify air distribution to satisfy changing cooling loads followed by air system balancing to ensure efficiency. This does not occur. For example, one tenant department has one person per 6.5 square metres, twice the normal occupancy density. Also, included in this space are eight computer terminals and other heat-generating equipment.

Fire safety

6.87 **Architectural elements.** The Lionel Chevrier Building is a group "D" major occupancy building under the NBC. Firestopping measures appear to be incomplete on the north exhaust duct penetration. Construction materials are being stored under Stairwell 4, which is a violation of the NBC/NFC.

6.88 **Mechanical elements.** The sprinkler layout in certain areas was rendered inadequate by the addition of new partitions. Also, the minimum requirement of 18 inches in clearance is not maintained between the ceiling sprinkler deflectors and the top of the floor-to-ceiling storage racks in most laboratories.

6.89 **Electrical elements.** The fire alarm drawings do not reflect the actual conditions. The pull station located on the north wall of the entrance corridor should be relocated at a required exit. A pull station should be installed at the penthouse exit to the roof area, which is considered the second required exit from the penthouse.

6.90 One stairwell does not have a smoke detector. No duct detectors are provided for shutting down recirculating air handling systems. Smoke detectors are located near exhaust ducts in the parking garage. However, these are not duct detectors.

6.91 During testing of the fire alarm system, one bell on the second floor did not operate properly because the bellhousing was touching the moulding on the wall. The sound pressure level of audible devices was generally acceptable, except in the shipping/receiving area.

6.92 **Fire safety plan.** There is no approved fire safety plan encompassing emergency procedures, maintenance and testing, or training of those occupants who have, or should have, specific fire safety duties. Fire protection equipment is not being regularly serviced. Inspections are not being performed, and no records are available.

Function

6.93 The functional requirements of the Chevrier Building are governed by the 1977 NBC. In general, all functional requirements have been met, except that washroom toilet stall doors do not lie flat, creating a hazard to the visually impaired; vestibules are too shallow for independent wheelchair access; the number of designated accessible parking spaces is insufficient; handrails are lacking and those in place do not have adequate extensions.

6.94 Several deficiencies exist with respect to current accepted practice and standards, including poor lighting in washroom vestibules and the front entry lobby. High-gloss waxed floors in the lobby and circulation areas, originally matte finished, present a problem for the visually impaired. Door hardware is a type that certain handicapped persons find difficult to grasp. As well, door windows that disclose individuals approaching from the other side are too high for wheelchair users or people below average height. The size and layout of the approach space to the front door prevents access by wheelchair users.

6.95 Wheelchair circulation is also impaired by the narrowing of interior hallways resulting from frequent reorganization of partitions and furnishings. In addition, clear locational and wayfinding signage for the visually, mobility, and developmentally impaired is deficient, particularly as related to emergency exiting routes.

Chapter 7

Vehicle Fleet Management

Vehicle Fleet Management

Main Points

7.1 We audited vehicle management in six departments that, together, manage about two thirds of the government fleet of almost 29,000 standard commercial vehicles, acquired at a cost of $470 million (paragraph 7.18).

7.2 There is significant room for improvement in motor vehicle fleet management. The problems merit a comprehensive review by Treasury Board and departments (7.21).

7.3 Transportation planning is generally weak. Typically, transportation needs are not defined in relation to program or service goals. Departments typically do not question whether the actual need for a vehicle continues to exist (7.22 and 7.25).

7.4 Generally, vehicles are purchased on the basis of initial price and, on this basis, we found that the Department of Supply and Services (DSS) obtains new vehicles at prices comparable to those available to large private sector fleet owners. However, environmental concerns and components of life-cycle costs, such as long-term maintenance costs, have not yet been incorporated into the acquisition process as required by the Treasury Board (7.26, 7.28 and 7.29).

7.5 Increased standardization of departmental vehicle fleets could result in greater savings in acquisition, administrative and operating costs (7.26 and 7.27).

7.6 We found indications of underutilization of vehicles and the possibility for savings in some of the departments, using a conservative annual utilization benchmark. For example, based on results of an in-depth study the Department of Transport plans to significantly reduce its vehicle fleet, at a saving of about $8.75 million over two years (7.30).

7.7 Departments have authorized many employees to take vehicles home, in the event the employee has to return to work after regular hours. However, they have not established procedures to calculate possible benefits for tax purposes resulting from this practice (7.31).

7.8 Departments and DSS have invested considerable resources in management information systems for vehicles. A Treasury Board evaluation of the DSS system reported that most departments did not find it to be useful. We found that the systems at the departments of National Defence and Transport were not complete or sufficiently reliable to be used for vehicle management. None of the systems could readily produce reports by location on vehicles whose usage, costs or repairs differed significantly from the norm (7.32 and 7.33).

7.9 Four of the five departments audited are not disposing of vehicles declared "surplus" in a timely manner. The cost to the government of this practice is estimated to be $1 million per year in one of the departments alone (7.35).

Table of Contents

Paragraph

Introduction 7.10

Audit Objective and Scope 7.16

Audit Criteria 7.19

Audit Observations

General Assessment 7.21

- Room for significant improvement (7.21)
- Transportation planning generally is weak (7.22)
- Acquisitions of vehicles from dealer stock are not adequately justified (7.23)
- Vehicle justifications often lack key information (7.25)
- Acquisition methods need to be improved (7.26)
- Utilization needs to be reviewed (7.30)
- Monitoring information is inadequate (7.32)
- Maintenance is inconsistent in certain programs (7.34)
- Disposal practices are not economical (7.35)
- The efficiency of the acquisition of supplies and services needs to be examined (7.37)

Department of Supply and Services (DSS) Common Service Activities 7.38

Department of National Defence 7.51

Royal Canadian Mounted Police 7.65

Department of Transport 7.78

Department of Agriculture 7.86

Department of Public Works 7.95

Exhibit

7.1 Federal Government Motor Vehicle Fleet Management

Vehicle Fleet Management

Introduction

7.10 Federal government departments and agencies own approximately 28,600 standard commercial vehicles, acquired at a cost of about $470 million. In the 1990 model year, around 3,800 vehicles were purchased at a cost of $63 million. Running the vehicles costs an estimated $100 million a year. Resale value of vehicles disposed of each year is about $8-9 million.

7.11 Transportation planning is the first step in deciding whether to purchase a vehicle. This involves periodically assessing the cost-effectiveness of alternative ways of meeting transportation needs, on the basis of program or service goals. For example, managers are expected to assess the costs and benefits of re-allocating vehicles; of short term leasing; of increased sharing of existing vehicles through pooling; of using public transit and taxis; and of paying employees to use their own vehicles.

7.12 If it is decided that it is cost-effective to purchase an additional vehicle or to replace one in poor condition, the manager is expected to justify the type of vehicle to be acquired against specific operational considerations — such as the equipment to be carried, terrain, and passenger load — taking into account life-cycle costs, energy conservation and environmental protection factors.

7.13 Generally, branch requests are forwarded to departmental headquarters for review in light of priorities and the availability of funds. Approved requests are forwarded to the Department of Supply and Services (DSS) for acquisition. Once delivered, vehicles are operated, maintained and repaired by departments. Managers are expected to develop maintenance schedules and to track the use and running costs of vehicles using either the DSS "Fleet Management Information System" (FMIS) or their own.

7.14 Departments are expected to consider kilometrage, age, condition and cost of repairs as criteria for vehicle replacement. Unless otherwise authorized, managers are expected to transfer vehicles to DSS for disposal as soon as replacements arrive.

7.15 This chapter begins with a general assessment of vehicle management in the government based on the departments we audited. The components of the management process we assessed are illustrated in Exhibit 7.1 and are the basis we have used to report the details of our findings by department. The common services provided by DSS — acquisition and disposal — are discussed separately.

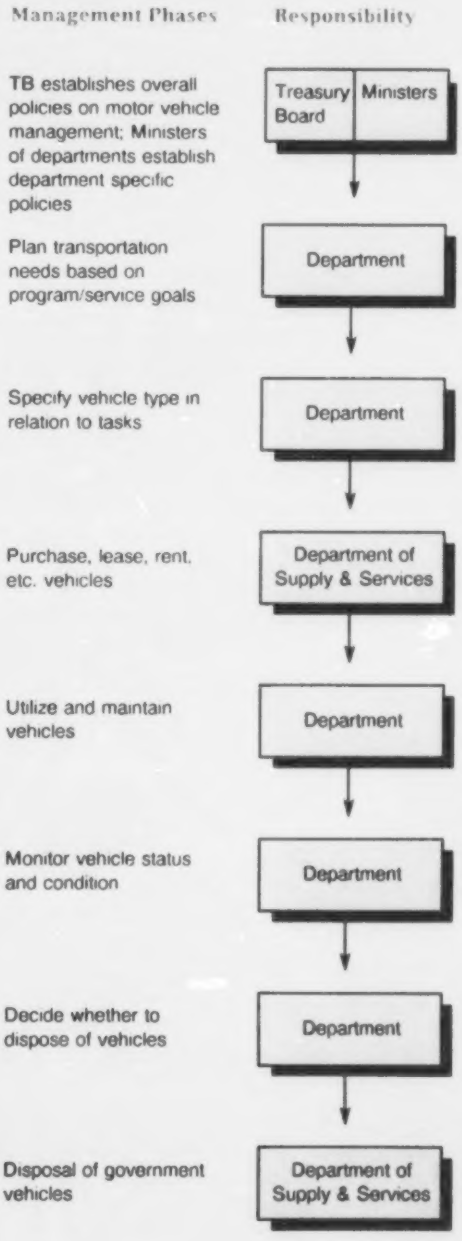
Audit Objective and Scope

7.16 The objective of our audit was to determine whether the government acquires, operates and disposes of its standard commercial motor vehicles with due regard to economy, efficiency and environmental concerns. The vehicles included in the scope of the audit were primarily passenger cars, trucks and vans. Special vehicles such as those designed for firefighting and military operations were not included. We also excluded vehicles in the "executive fleet", such as those used by ministers and deputy ministers, and we did not review vehicle management in Crown corporations.

7.17 We audited vehicle management in the Department of National Defence (DND), the Royal Canadian Mounted Police (RCMP), the Department of Transport (DOT), the Department of Agriculture (DOA), and the Department of Public Works (DPW). We also

Exhibit 7.1

FEDERAL GOVERNMENT MOTOR VEHICLE FLEET MANAGEMENT


Management Phases
Responsibility
TB establishes overall policies on motor vehicle management; Ministers of departments establish department specific policies
Treasury Board
Ministers
Plan transportation needs based on program/service goals
Department
Specify vehicle type in relation to tasks
Department
Purchase, lease, rent, etc. vehicles
Department of Supply & Services
Utilize and maintain vehicles
Department
Monitor vehicle status and condition
Department
Decide whether to dispose of vehicles
Department
Disposal of government vehicles
Department of Supply & Services

audited the common service vehicle management activities of the Department of Supply and Services (DSS).

7.18 At the time of our audit, the departments examined owned about 19,000 standard commercial vehicles – about two thirds of the government's 28,600 similar vehicles.

Department	Vehicles Owned	Estimated Historical Costs	1990 Model Year Buys
		(Millions)	
National Defence	7,300	$180.0	$ 11.0
RCMP	6,359	107.0	26.0
Transport	2,589	34.5	3.7
Agriculture	2,201	24.0	3.6
Public Works	549	6.6	0.8
Others	9,636	116.0	17.9
Total	28,634	$468.1	$ 63.0

Audit Criteria

7.19 Our audit criteria were based on general practices in vehicle fleet management, on previous audits conducted by this Office, and on Treasury Board administrative policies. The main audit criteria included the following:

- The need for vehicles should be identified in relation to operational objectives.
- The lowest-cost vehicle able to meet expected operational needs should be acquired, taking into consideration initial cost, life-cycle costs, energy conservation and environmental protection factors.
- Alternatives to purchasing vehicles, such as paying employees to use their own vehicles, using taxis or leasing vehicles for peak periods, should be used when cost-effective.
- Departments should manage vehicles in accordance with the life-cycle approach to materiel management, involving consideration of initial, operating and disposal costs and benefits.

- Vehicles should be disposed of in a manner that optimizes revenues to the government.

7.20 In the general absence of data in departments on daily usage — distance, duration, and purpose — we were unable to make a definitive assessment of utilization. Therefore, we used annual and monthly utilization data as an indicator of possible underutilization. A recent Department of Transport study had found the high, medium and low industry benchmarks for annual utilization of supervisory and administrative vehicles to be about 30,000 km, 25,000 km, and 20,000 km respectively. We used a benchmark of 18,000 km a year as an indicator of underutilization. The fact that a vehicle has been driven over 18,000 km does not necessarily mean it was needed or used for an appropriate purpose. For example, a vehicle may have accumulated 18,000 km but been used for only half a year. Conversely, utilization under the 18,000 km benchmark may be appropriate under certain conditions, for example, where the vehicle use is highly specialized or where the use is restricted to specific locations such as an airport. Consequently, we excluded special purpose vehicles from our analyses of utilization using the 18,000 km benchmark.

Audit Observations

General Assessment

Room for significant improvement

7.21 The acquisition, operation and disposal of vehicles can be significantly improved. There are a number of actions possible that would correct specific shortcomings in DSS and in departments. However, these actions may not be a sufficient remedy. The interests and skills of most managers in departments are in running programs, not vehicle fleets. Moreover, vehicle management information systems are unreliable, incomplete and do not provide the type of reports needed to manage vehicles. The provision of common vehicle services to departments by DSS is not, and as currently organized cannot be, managed as an integrated line of business. DSS states it does not have the mandate to provide this type of service. The government has not assessed the costs and benefits of providing these services on a comprehensive basis. In our opinion, there are problems in acquisition, utilization, monitoring and disposal of vehicles that merit comprehensive examination by the Treasury Board Secretariat and departments.

Transportation planning generally is weak

7.22 Generally, the departments we examined did not define their transportation needs in relation to program or service goals. With certain exceptions, alternatives to purchasing vehicles were not assessed for feasibility, were not implemented when justified, or were not adequately justified when implemented. These alternatives include increasing the pooling of vehicles, leasing to meet peak-period demands, using public transport and paying employees to use their own vehicles. In 1989-90, for example, although costs and benefits had not been assessed, the RCMP was spending about $1 million leasing vehicles and the Department of Public Works was paying $1.8 million to employees to use their own vehicles for departmental business.

Acquisitions of vehicles from dealer stock are not adequately justified

7.23 We found that, on average, purchasing dealer stock was 16 percent more expensive than bulk buys. From 1986 to 1990, 978 vehicles out of 21,850 were purchased directly from dealer stock with about 47 percent purchased at the end of the government's fiscal year. According to DSS, dealer stock is supposed to be purchased only where a department considers that urgency outweighs the opportunity for savings realized in bulk buys.

7.24 Two of the departments we audited had numerous purchases from dealer stock, which we reviewed. In the Department of Transport (DOT) we examined 30 recent dealer stock purchases made, for the most part, at the end of the fiscal year. These vehicles cost about $540,000. For 26 of the 30 purchases there was no documentation showing that the vehicle being replaced was inoperable or that the need to replace it was urgent. For model year 1988, DPW bought 26 vans through bulk buys and 26 from dealer stock; the latter each cost an average of $3,171 more than the bulk buy purchases. The extra cost may be due in part to additional options that were not originally requested. In our opinion, most of the justifications provided for such urgent purchases were inadequate. For example, year-end purchases from dealer stock were not made on the basis of urgency but because funds became available to purchase additional vehicles.

Vehicle justifications often lack key information

7.25 Most of the vehicle purchases made by the departments we audited were replacements. Justifications for such purchases were typically based on the assumption that an existing vehicle had to be replaced. Departments rarely questioned whether the need for the vehicle continued to exist. Having decided to purchase a vehicle, justifications by DND and the RCMP for purchasing specific types of vehicles were generally satisfactory. However, DOT and DPW justifications typically were missing information on passenger load, driving conditions, need for options and projected utilization. In the Department of Agriculture, justifications were prepared after the vehicle had been approved for replacement.

Acquisition methods need to be improved

7.26 Most vehicles are purchased using 23 annual "bulk buys". With the exception of the RCMP, a typical bulk buy involves orders of hundreds of individual vehicles of different makes and options. It is actually a simultaneous buy of many different vehicles. Given the range of vehicles and options requested by departments, DSS obtains new vehicles at prices comparable to those available to large private sector fleet owners. The best discounts are obtained on the high-volume buys of standardized RCMP police cars.

7.27 The variety of vehicles and options available to departments makes the administration of the "bulk buy" method complex. Based on our review of vehicle justifications it is not clear that departments need such a variety of vehicles. Generally, increased standardization would mean reduced costs of acquisition and administration. It would also make it easier to assess operating and maintenance costs, and it would simplify vehicle management and monitoring.

7.28 Treasury Board's current policy on acquisition continues the requirement that life-cycle costs (such as running costs and resale value) be considered along with initial price. A vehicle with a lower purchase price can end up costing more in the long run than a higher-priced one if it has higher operating and maintenance costs or a lower resale value. Currently, however, vehicles are purchased only on the basis of their initial price.

Treasury Board policy requires that consideration be given to vehicles that protect the environment and conserve energy.

7.29 The October 1976 Treasury Board Motor Vehicle policy stated that energy conservation should be considered when buying a vehicle. One of the requirements of the new April 1991 Treasury Board policy is that first consideration be given to acquiring vehicles that conserve energy **and** protect the environment. The government's "Green Plan" issued in December 1990 states that environmental factors must be formally recognized in government as essential criteria in decision making. These considerations have not yet been incorporated into departmental and DSS acquisition procedures. For example, fuel efficiency and the availability of alternative fuels are not taken into account, nor is the impact of options such as air conditioning.

Utilization needs to be reviewed

7.30 We found that general-purpose DND and RCMP vehicles generally were annually utilized beyond our 18,000 km benchmark. But we found indications in the departments of Transport, Agriculture and Public Works that such vehicles were substantially under-used. For example, DOT's plans indicate that vehicle fleets in the Department could be significantly reduced, at a saving of about $8.75 million over two years.

7.31 According to Revenue Canada's interpretation of the Income Tax Act, taxable benefits are received when employees use employer-owned vehicles for personal use. Personal use includes travel between home and work even where the employee may have to return to work after regular hours, and even if the employee is required by the employer to take a vehicle home. We found that departments had authorized employees to take vehicles home, either continuously or occasionally, without having established procedures to calculate possible benefits for tax purposes. For example, DOT had formally authorized about 900 employees to use departmental vehicles for private purposes in specific circumstances. About half of the authorizations relate to on-call stand-by duty, permitting an employee to drive between place of residence and place of duty because the employee may be required to return to duty after normal working hours.

Monitoring information is inadequate

7.32 Government vehicle management information systems do not provide the necessary kinds of information. Good vehicle fleet management requires reliable, timely and relevant information on the numbers, usage, operating and repair costs, and disposal of vehicles. Exception reports by location are required to track repairs and maintenance, to identify vehicles exceeding standards for fuel and running costs, to flag vehicles where abuse may be occurring, and to identify patterns of defects that should be brought to the manufacturer's attention for redress. Most of the data for these reports should be obtained electronically through a credit card system. This would minimize error from manual input, reduce costs and improve timeliness.

7.33 Departments and DSS have invested considerable resources in management information systems for vehicles. A Treasury Board evaluation of the DSS information system reported that most departments did not find it to be useful. We found that the DND and DOT systems also were not complete or sufficiently reliable to be used for vehicle management. None could readily produce the exception reports described above.

Maintenance is inconsistent in certain programs

7.34 In the Department of Agriculture and Department of Public Works locations that are without vehicle pools, maintenance is left to the discretion of the driver. We found it to be generally inconsistent. We found the same problem of inconsistent maintenance in DOT's Aviation and Marine Groups. In DND, the RCMP and the Airports Group of Department of Transport, we found formal maintenance scheduling.

Some departments retained surplus vehicles after new replacement vehicles had arrived.

Disposal practices are not economical

7.35 When a department decides that it no longer wants a vehicle, it transfers it to DSS for disposal. We found that, with the exception of DPW, departments were retaining surplus vehicles after new replacement vehicles had arrived. As a result of this practice, the government loses revenues from sales or spends money in advance of need and incurs additional operating and overhead costs. For example, DND's practices result in an estimated $1 million annual loss in revenues to the government.

7.36 About one third of government's overall disposal revenues — around $8-9 million — comes from the sale of vehicles. DSS obtains reasonable prices for government vehicles and sells them "as is, where is". However, it does not know the administrative costs associated with vehicle sales and has not assessed the efficiency of the disposal operation.

The efficiency of the acquisition of supplies and services needs to be examined

7.37 The government has not examined the costs and benefits of using five different methods to obtain vehicle supplies and services — at least $57 million in fiscal year 1990-91. These methods include expenditures under contracts (270), standing offers (700), an unknown number of departmental local purchase orders for less than $2,500, DSS purchase orders (1,625) mostly under $2,500 and the Government of Canada Credit Card (GCCC). We are concerned that the diverse methods of acquisition may be increasing administrative costs unnecessarily, and reducing convenience, economies of scale and management control. For example, extending the use of an improved GCCC or private sector credit card, to cover low-expenditure local purchase orders and DSS purchase orders and acquisitions under standing offers, would reduce administrative costs while increasing convenience and management control over vehicles and expenditures.

Treasury Board's response: *Treasury Board welcomes the report of the Auditor General on Vehicle Fleet Management, in that it will assist in the changes that have been under way during the past year. For example, the Motor Vehicle Policy has been streamlined and simplified to provide a more results-oriented policy.*

As a result of the Treasury Board evaluation of the Fleet Management Information System (FMIS) in April 1990, the TB policy was changed to make the FMIS an optional service as of 1 April 1991. Pilot projects are currently being undertaken to contract with private sector firms to provide a fleet management service, including a vehicle information system.

A committee of major user departments was set up in January 1991 to help departments adjust to the new policy and to improve the quality of fleet management in the federal government through consultation, identification and communication of best practices, as well as information dissemination and exchange.

In the disposal area, proposals for revising the Surplus Crown Assets Act were included in the Public Service Reform Bill tabled on 18 June 1991. The disposal system is undergoing considerable revision to ensure that appropriate incentives are in place to encourage managers to dispose of surplus assets at the right time and at best value for the Crown.

The Motor Vehicle Policy is also under the umbrella of the Materiel Management Policy, which was streamlined in 1990 with an increased focus on results, the life-cycle approach to materiel management and a strategy for materiel management in the '90s. The following are the four priorities for materiel management: using technology where it counts, improving skills, encouraging innovative management, and supporting government initiatives (e.g., expenditure restraint and environmental issues). The new policies and approach to materiel management have been the subject of considerable consultation with departmental materiel managers, and seminars on the new policies have been conducted for more than 1,000 managers by the Treasury Board Secretariat.

The implementation of these initiatives, along with the anticipated response to the Auditor General's findings on vehicle fleet management, will have a positive effect on the quality of the management of materiel assets in the federal government.

Department of Environment's response: *The government's Green Plan, issued in December 1990, states that environmental factors must be recognized as essential decision-making criteria within government. Treasury Board policy now requires that first* *consideration be given to acquiring vehicles that conserve energy and protect the environment. In the Green Plan, the government committed itself to adopting a Code of Environmental Stewardship covering all areas of federal operations and activities. Federal departments and agencies will be developing action plans indicating how they will implement the Code and will also report regularly on the implementation of the Green Plan and this new Treasury Board policy. With respect to fleet management, departments will move to incorporate these criteria into the decision-making process.*

Department of Supply and Services (DSS) Common Service Activities

7.38 Acquisition is based on initial cost. Once departments have identified the type of vehicles to be purchased, they forward requisitions to DSS. DSS is responsible for determining the method of acquisition. Vehicles are purchased only on the basis of initial cost. Of the close to 4,000 vehicles acquired in 1990, DSS bought 69 percent by bulk buy, 19 percent by standing offers, 8 percent by purchases made for the Government Vehicle Inventory, and 4 percent from dealer stock. These methods differed in predicted length of delivery time, flexibility of choice and expected price.

7.39 DSS states that the "bulk buy" method is the least expensive method. In practice, "bulk buy" is, with the exception of RCMP vehicles, a simultaneous buy of many different vehicles. It has about a five- to six-month delivery time after a department submits a requisition. The bulk buy purchase system is supported by the Government Motor Vehicle Specifications (GMVS). Treasury Board policy requires that generally all vehicles purchased or leased by the government must conform to the GMVS. The GMVS groups comparably performing vehicles built by different manufacturers and provides information on option availability. This facilitates obtaining competitive bids. The GMVS does not contain information on life-cycle costs and fuel consumption by model and make of vehicle. DSS can provide information on historical life-cycle costs at the request of departments at the time of purchase. However, it has not received any requests. (The usefulness of the DSS information is discussed more fully in paragraph 7.44.)

7.40 The GMVS also does not contain decision criteria related to environmental protection and energy conservation. It does, however, refer managers to other sources for information on alternative fuels, and indicates that propane and natural gas conversions can be purchased.

7.41 As part of the vehicle acquisition process, DSS requires manufacturers to certify that "the price/rate is not in excess of the lowest price/rate charged anyone else, including the contractor's most favoured customer, for like quality and quantity of products/services". The purchase contract states that this certification is subject to verification by government audit. After the start of our audit, DSS obtained letters from the three key manufacturers stating that they were complying with the price certification clause in the contracts. Although DSS obtains the certification, it has conducted only one audit of a sole source contract for 16 vehicles.

7.42 DSS informed us that, in its opinion, it would not be an effective use of audit resources to conduct analyses to verify the certification where the competitive process has been used, which is usually the case in standard vehicle acquisitions.

7.43 We developed an economical test procedure to assess whether the prices were reasonable. We assessed the prices of bulk buy vehicles purchased by DSS by taking a sample of vehicles (excluding unmarked RCMP vehicles) and comparing the prices paid to the **maximum** prices that fleet management companies would pay for the same vehicles. Using these maximum prices as a benchmark, we concluded that, overall, DSS paid about 11.8 percent less on purchases of 1990 models. On purchases of $27.76 million this represents a saving of about $3.3 million.

However, there were significant differences in discounts between police and civilian vehicles and within the civilian vehicle category. About one half of the savings — $1.73 million — were on highly standardized full-sized police vehicles, which are bought in large quantities. Against the benchmark, the saving on these RCMP vehicles was 18 percent. Prices paid for civilian vehicles averaged 8.0 percent below the benchmark, although for about one quarter of the vehicles the average saving was under 4 percent. In contrast to RCMP vehicles, most of the civilian vehicles were bid on individually. Private sector fleet owners can also obtain vehicles at similar discounts off the benchmark price when they buy large numbers of the same vehicle. As indicated previously, based on our review, generally increased standardization would further reduce costs of vehicle acquisition and administration in the government.

7.44 **The DSS Fleet Management Information System (FMIS) is not considered useful by departments.** The DSS Fleet Management Information System was established to provide information on vehicle fleets based on departmental requirements. Until 1 April 1991 all departments except DND and Department of Transport were required to use the DSS Fleet Management Information System. The estimated total annual cost to the government of operating the FMIS is $1.5 million. (The annual cost to DSS of running the FMIS is about $800,000; the estimated annual cost to departments of completing data input forms is an additional $700,000.) The FMIS readily produces vehicle-descriptive reports but not timely comparative exception reports, which could be used to manage fleets by location. A Treasury Board evaluation of the FMIS reported that managers in most departments do not believe the DSS Fleet Management Information System in its present form to be useful, accurate or complete. Some departments also do not submit accurate and complete data, thus compounding the problem.

7.45 Fleet leasing companies use largely automated vehicle information systems linked to a credit card system, to record vehicle-related purchases and to produce vehicle monitoring and exception reports. DSS is planning to link to the FMIS most purchases of fuel, emergency repairs and routine maintenance on the Government of Canada Credit Card. This would eliminate most manual data input and thus most inaccuracies. However, it would not include all running costs, given the use of standing offers and local purchase orders to buy other goods and services of this type.

7.46 **Efficiency of DSS disposal practices not adequately assessed.** DSS disposes of all surplus government assets, with vehicles constituting about $8-9 million of $30 million annual sales. About 62 percent of these are sold through public sales, 29 percent by mail, and about 7 percent by auction.

7.47 Government vehicles are generally priced for sale "as is, where is". A reasonable expected price for such vehicles is the wholesale price. We compared actual selling prices of public sale vehicles to expected wholesale prices, for six regional offices. Overall, at least the wholesale price was obtained. Three regions were, on average, obtaining retail prices.

7.48 However, DSS does not know the overhead costs associated with vehicle sales or the efficiency of its vehicle disposal operations. Although this information would be useful to DSS, its importance extends further because of a new rebate program initiated by Treasury Board, designed to get rid of excess inventories and improve management. DSS commission rates are an important factor in determining the rebates departments will receive. Generally, the commission is 25 or 30 percent depending on the sales method. The rate is set by comparing overall revenues with overall expenses. We had planned to assess the efficiency of the vehicle disposal operation, but DSS keeps cost or performance information only on an aggregate basis.

7.49 Although we could not assess the efficiency of the vehicle disposal operation because information on the cost of running the operation was not available, we were able to measure disposal time. We assessed the disposal time for 3,424 vehicles over a 12-month period. Our measurement of disposal time started at the point when a department notified DSS that a vehicle was surplus. About 85 percent of the vehicles were disposed of within DSS's 90-day goal; 3 percent were retained longer than 180 days. Other jurisdictions and private sector companies we contacted use a standard of 60 days or less to minimize administrative costs, reduce the interest foregone on delayed revenues, and lessen the possibility of losing money due to changes in model year. DSS disposes of about 69 percent of vehicles within 60 days.

7.50 Information on the condition of vehicles is not consistently disclosed to buyers in the seven DSS regions we reviewed. Departments are required to inform DSS of defects; however, DSS does not require that information on defects be disclosed to potential buyers. Among the reasons for this is concern about liability for defects that may not be known. Generally, we found that DSS staff would disclose information on a vehicle's condition upon request. However, two regions also attach a list of major defects to the vehicle; one of them also has an inspection program to identify any defects.

Information on the condition of surplus vehicles is not consistently disclosed to buyers.

Department of Supply and Services' response: *DSS recognizes that it does not provide an integrated vehicle management service and is willing to participate with Treasury Board and other departments in discussions on the need to reorganize vehicle fleet management.*

It is the position of this Department that the publication of model specific life-cycle cost information in the Government Motor Vehicle Specification (GMVS) is not an effective use of departmental resources. It is more cost-effective to provide specific information when requested.

With respect to the DSS Fleet Management Information System (FMIS), DSS provides information in accordance with the stated requirements of our clients and within the limits of the data supplied by them. Whenever the existence of errors is discovered or brought to our attention they are corrected. Whenever a client department requests information reports from the FMIS in a unique or varied format, all attempts are made to meet their needs. DSS has and will continue to accommodate any such request, within the limits of financial and human resources.

As departments undertake initiatives to improve fleet management, DSS will assist them by making available information on the acquisition cost and disposal returns of vehicles. DSS is also supporting the government wide initiative of the Assets Information Management Project which will help all departments to better manage all material throughout the life-cycle.

Since the release of the Green Plan in December 1990, DSS and other departments have been working closely with the Office of Environmental Stewardship towards the development of new operational policies and procedures necessary to implement the Plan. Important aspects of this work include the development of an Environmental Code which would provide clear criteria and policy direction for all departments, as well as the development of targets dealing with transportation energy. Until this work is further advanced DSS will not be able to formally integrate environmental factors into the criteria for the selection of vehicles.

Department of National Defence

7.51 **Transportation planning is not sufficiently co-ordinated.** We reviewed the management of administrative support vehicles at seven bases in Canada and at National Defence Headquarters (NDHQ). The numbers and types of support vehicles to which a base is entitled is known as its "establishment" — the minimum number of vehicles required to provide essential transportation services under normal circumstances. Any administrative support vehicle at a base must be held against an establishment, which is reviewed formally at each base on a five-year cycle. The review process is well documented and is followed closely by DND. However, the review does not generally question whether the need for the vehicles continues to exist; rather it assumes an ongoing need for vehicles based on kilometres driven.

7.52 We also found that DND practices do not include an integrated analysis of the various ways to meet transportation needs. Some bases are securing vehicles in excess of their establishment by retaining replaced vehicles. The process used by DND to monitor establishments at bases is inadequate to detect and track the size of this type of "shadow fleet" — although when it finds variances from establishments NDHQ brings them to the attention of the chain of command. The process of justifying base establishments does not apply to standard commercial reserve and militia vehicles. Establishments for these vehicles were created during the 1970s and have not since been validated against any specific criteria. We estimate these vehicles to number about 400.

7.53 Generally, DND meets peak period needs and other unforecasted requirements by renting. The amount of vehicle rentals is an important input in estimating "establishment" needs, and in obtaining greater volume-related savings through national and regional rental contracts. DND bases spent $8.8 million in 1982-83 renting vehicles and taxi services. The cost of rentals in 1990-91 is projected at $23 million, but it could be higher because not all rental costs are captured or aggregated by the present financial system.

7.54 We also found inadequate co-ordination among the three groups responsible for identifying vehicle needs, procurement and maintenance. This leads to unnecessary expenditures on transportation at bases. Although the three groups report to the same senior level, they operate independently and have distinct operating budgets, which makes transfer of funds difficult. They also maintain their own independent information systems at bases and feed their information separately through the command structure to NDHQ. How well this tripartite approach works depends on the co-operation among the parties, involving frequent planning meetings and informal communication. This system sometimes results in wasteful practices.

Inadequate co-ordination leads to unnecessary expenditures on transportation at Canadian forces bases.

7.55 We were unable to determine the degree to which inefficiency results from these practices. We could identify specific instances of inefficiency at bases we visited only by cross-comparison of unrelated data bases and by specific requests for information on individual vehicles. However, that such wasteful practices continue undetected and unchallenged indicates the lack of an integrated system of fleet management.

7.56 For example, at three bases the transport unit was renting vehicles at a cost of hundreds of dollars, because the maintenance unit did not have the parts to repair vehicles that were off the road. Although the needed parts were available locally, they had to be obtained by the supply unit and the process can be lengthy.

7.57 At six of the seven bases we reviewed, maintenance did not know when vehicles were due to be replaced. As a result there is a risk that major repairs may be made to vehicles immediately prior to their disposal. For example, in a supply compound at one base we found three heavy trucks awaiting disposal with tires so new that they still had the paper tags glued to the sidewalls.

7.58 We noted that vehicles rented to meet peak requirements at a base were in the same category as some being held as part of national stock. We were informed that the paperwork to release the vehicles from national stock was not worth the effort considering how easy it was to rent a vehicle against a standing offer. Furthermore, because the paperwork process is perceived to be lengthy, the peak requirement would likely be over before the vehicles were released.

7.59 **Vehicle justifications generally satisfactory.** Generally, DND's procedures for acquiring the right types of vehicles are satisfactory. However, because of inadequate co-ordination among the directorates responsible for developing specifications for new vehicles, there is a risk that vehicles may be acquired that do not meet DND needs. For example, several bases required new Military Police vehicles. DND contracted through DSS for 19 vehicles at a total cost of about $293,000. The specifications called for a plexiglass shield to be installed between the front and rear seats. When the vehicles arrived it was found that with the plexiglass shield in place the leg room in the rear seat was reduced to a few inches, making it difficult to use the rear seat for passenger transport.

7.60 **Utilization review satisfactory.** DND vehicles have a wide range of usage. We found DND's reviews of vehicle utilization, which were based on kilometres driven, to be satisfactory.

7.61 **Monitoring is an acknowledged problem.** DND uses three systems to monitor vehicles, none of which provides all the information necessary for vehicle fleet management. Moreover,the systems cannot be used in an integrated manner for fleet management purposes at NDHQ. DND cannot readily ascertain the relationship between factors such as function and usage patterns, maintenance, and replacement. Currently this is done manually for each vehicle once a year, using reports from all three systems. DND has recognized that the current systems are not sufficiently responsive to allow integrated and timely vehicle management; a new system is being considered.

7.62 **Maintenance practices generally satisfactory.** Generally, we found that DND vehicles were maintained by DND personnel in accordance with manufacturers' recommendations. However, we found that procedures used to dispose of batteries and battery acid constituted questionable environmental practices at most bases. Unserviceable vehicle batteries are generally drained before being shipped to a "scrap" dealer. The electrolyte (battery acid) drained from the battery is neutralized with baking soda. Neutralized acid containing concentrations of lead is disposed of through the base sewage system. At one base this practice was stopped when soil testing for an adjacent construction project found the surrounding soil to be polluted. At another base the practice was stopped because the Base Hazardous Materials Officer concluded that DND's "standard" procedures are environmentally unsound. As a result of this audit, DND has issued interim directions to halt the practice at all bases.

7.63 **Disposal is not efficient.** DND procedures for disposing of surplus vehicles are inefficient. To dispose of a vehicle, the base supply unit must obtain authority from NDHQ. This normally involves an exchange of messages that may take anywhere from one to twelve months. Only after the receipt of NDHQ authority can the base transfer the vehicles to DSS for sale.

7.64 We requested specific information on a sample of vehicles disposed of in the last two years. We found that it took, on average, five months for DND to notify DSS that a vehicle was surplus. The DND cycle tends to deliver new vehicles into the system in April and May. Adding five months to the process puts the sale of the bulk of replaced vehicles into September and October, just after the new model year. This reduces their book value by about 20 percent. If this drop in value applied to all vehicles, we estimate that the result would be lost revenue of about $1 million per year.

Royal Canadian Mounted Police

7.65 **Transportation planning could be improved.** We examined the RCMP's management of vehicles used for general policing in five Divisions and at Transport Management Branch (TMB), RCMP Headquarters. The five Divisions have about 3,900, or 61 percent, of the RCMP's vehicles.

7.66 We found that the basis for establishing the need for vehicles could be improved. Divisions base the need for vehicles on traditional ratios of force members to vehicles. Over the past few years the RCMP has primarily bought replacement vehicles rather than additional vehicles. When additional vehicles were bought, the purchases were reviewed to ensure that they represented valid requirements. But the RCMP generally has not performed systematic periodic reviews to establish that vehicle allocations to Divisions represent valid vehicle requirements, based on identified service levels and expected workloads. Such studies would assess the ongoing validity of planning ratios and fleet distribution.

7.67 The RCMP indicates that future shortfalls in vehicle acquisition may have major adverse effects. Since 1987-88, the RCMP has been unable to replace, on average, 135 vehicles per year. For the 1991-92 planning year the TMB identified a need for $8.6 million above identified funding levels, mainly for replacement vehicles to maintain the size of its base fleet. The RCMP estimates that the 1991-92 shortfall is 400 vehicles. These figures do not include RCMP's estimate of a shortfall of an additional 273 vehicles needed for new and existing programs, such as drug enforcement and police-community relations.

7.68 The Branch states that the consequences of a 1991-92 shortfall could be a decrease in fleet size, because worn-out vehicles cannot be replaced; a reduction in present levels of policing services; severe curtailment of allowed kilometrage; and extension of long-term leasing programs. Divisions need to begin emergency planning to be able to sustain policing services with a reduced fleet, and high-profile units such as the Prime Minister's protective services cannot be given needed armoured vehicles.

7.69 We found that the RCMP has not conducted specific impact assessments of the projected shortfall; however, it states that it will monitor and assess the impact. The estimated shortfall is based on a 120,000 km ordering criterion. This criterion is derived from the approximate average odometer readings of all vehicles that are disposed of, including those that need early replacement due to accidents. We found that the RCMP may need to revise its criteria for ordering replacement vehicles, since the RCMP emergency car bank already provides for early replacement due to accidents. Thus, the odometer readings on those vehicles should not be included in calculating the ordering criterion.

7.70 The impact of any shortfall could be mitigated by changes in the management of the new car and emergency car banks. All Divisions keep new vehicles in compounds for extended periods of time before placing them in service. This practice is costly and the need is questionable.

All Divisions keep new vehicles in compounds for extended periods of time before placing them in service. This practice is costly and the need is questionable.

7.71 If the changes can be made, then significant savings may be possible. For example, in one Division during 1989-91, 746 new vehicles remained unused for an average of about 105 days. During the same period in another Division, 438 new vehicles remained unused for an average of 150 days. If the carrying period for these vehicles could be reduced to an average of 30 days, the savings could be up to $180,000 and $130,000 respectively. This estimate of savings does not include storage costs.

7.72 In our opinion, two factors contribute to the delays before vehicles are placed in service. The first is the conservative ordering criterion, which results in replacement vehicles being ordered earlier than needed. The second relates to limitations on the planning that can be done under the DSS bulk buy process. To meet bulk buy schedules, Divisions must forecast their vehicle needs ten months ahead on the basis of odometer readings. Actual replacement, however, occurs at the end of a vehicle's useful life; new replacement vehicles may thus remain in storage for long periods before they are needed. This problem could be alleviated through the use of standing offers and phased delivery of vehicles by manufacturers. The RCMP states that it has been seeking to implement such changes.

7.73 Another area of possible savings is the RCMP emergency bank. RCMP policy until January 1991 was to have an emergency bank of two percent of cars and station wagons in each Division. Divisions have since been instructed to base the size of their emergency banks on what they need to satisfy short-term emergencies and unforeseen requirements. RCMP data indicate that 125 vehicles in the categories we audited were held in such banks as of June 1990. Most of the vehicles in the banks were standard marked and unmarked police cars. They may remain in the emergency banks for long periods before being used. For example, in one Division, over a five-year period 15 vehicles were held in the bank for more than six months; seven were held for more than a year before being placed in service. The annual cost of carrying the inventory of 125 vehicles in emergency banks is $250,000, not including storage costs. The RCMP has not conducted studies to determine the appropriate size and ongoing need for each divisional emergency bank.

7.74 Vehicle justifications are generally appropriate. We found that the RCMP was generally buying appropriate vehicles. RCMP policy is to buy rather than lease since it believes leasing to be more expensive. However, RCMP Divisions lease some vehicles for surveillance work, to obtain a broader range of vehicle types and to enable them to change surveillance vehicles easily. Total long-term leasing for 1989-90 was 170 vehicles, costing about $1 million. This represents an increase of 34 vehicles since 1985-86. Funds for leasing come from operational rather than capital budgets. Generally, a leased vehicle cannot be replaced with a purchased vehicle, because of a lack of capital funds. This creates an incentive to retain leased vehicles to compensate for the shortfall in acquisitions. The RCMP has not assessed the cost-effectiveness of leasing to determine if it should be expanded or reduced.

7.75 Utilization. Generally, the RCMP is using its vehicles beyond our benchmark of 18,000 km annually.

7.76 Monitoring needs to be improved. The RCMP generally does not use the DSS Fleet Management Information System even though it provides the system with data on all its vehicles and DSS charges about $300,000 annually for this service. Divisions have their own systems to track vehicles and to identify them for potential replacement. However, none of the systems has the capability of producing exception reports to identify vehicles incurring excessive running costs or possible abuse. The RCMP is developing its own vehicle management information system as part of a larger materiel management system, and plans to opt out of the DSS Fleet Management Information System in April 1992. The RCMP estimates the cost of the overall materiel management system to be $600,000, with ongoing annual maintenance costs of $116,000.

7.77 Maintenance and disposal practices of the RCMP are generally satisfactory. RCMP vehicles generally are satisfactorily maintained. Generally, we found that vehicles identified as surplus were being disposed of in a timely manner. However, one Division has retained 23 vehicles without authority for an average of 242 days after the replacement vehicles were placed in service.

RCMP's response: *This special audit has been beneficial. The Force has already taken action through DSS and vehicle manufacturers to implement improved acquisition methods. Time and potential cost savings are expected using departmental individual standing offers combined with phased delivery. In addition, the RCMP will act on all recommended improvements as part of its ongoing pursuit of better fleet management.*

Department of Transport

7.78 Transportation planning could be improved. The Airports Group has about

1,000 vehicles and the Marine and Aviation Groups each have about 700. We reviewed vehicle management at 10 locations within these Groups, including Department of Transport (DOT) headquarters and regional offices — a total of 474 vehicles. Generally, we did not find plans linking levels of service to vehicles required. DOT has considered certain alternatives to acquisition, and ways of reducing acquisitions: it has conducted a department-wide assessment of the potential for leasing at airports and pooling in regional offices. However, generally it has not studied as an alternative to acquisition the possibility of compensating employees to use personally owned vehicles (POV).

7.79 Two locations that have conducted such studies found that POV use was more economical than purchasing or leasing. One of the studies found that it cost 21 percent more to use DOT vehicles than personally owned vehicles. POV use may not be practical at airports due to restrictions on the vehicles permitted on airport grounds. However, DOT has not assessed the extent to which such findings could be generalized to other locations.

7.80 We found that two regional offices use short-term leasing to meet peak-period transport needs. Both locations also make significant use of personally owned vehicles and vehicle pools, but there has been no cost-benefit comparison of leases, personally owned vehicles and departmental vehicles. At the time of our audit, neither of the two regional offices was aware of the extent of POV use.

7.81 **Vehicle justifications lack key information.** The vehicle acquisition justifications we reviewed did not assess alternative means of transportation, or provide information on numbers of passengers, on driving and climatic conditions, and on projected utilization. They also lacked explanations to support buying selected options. A 1987 review by DOT also found that vehicle acquisitions were not adequately justified and recommended improvements.

7.82 **Utilization reviews indicate that fleet reduction is possible.** We found a history of underutilization at DOT regional offices, identified in a series of reviews dating back to 1979. For example, the 1987 DOT review reported that motor vehicles at regional offices were being underutilized to an extent that indicated that a considerable number of the vehicles were not needed. That review led DOT to initiate a study on the feasibility of pooling vehicles in the regional offices. The study found that pooling was feasible and could reduce regional office vehicle fleets by 40 percent, with annual savings of about $1.15 million. As a result, DOT plans during fiscal year 1991-92 to reduce its vehicle fleet by 20 percent at all locations. During 1992-93, vehicle fleets at 10 of 11 regional offices will be reduced an additional 20 percent. DOT estimates that the total savings resulting from these planned reductions will be about $8.75 million over two years. DOT's estimates of vehicle underutilization are consistent with our analysis.

DOT estimates that total savings from planned reductions in fleet size will be $8.75 million over two years.

7.83 **Monitoring information is deficient.** DOT's Motor Vehicle Fleet Management Information System (MVFMIS) was upgraded in 1988, in part as a result of a DOT review, which reported that vehicle utilization and maintenance records were not prepared consistently, often contained erroneous information and did not properly reflect actual costs incurred. DOT indicates that the cost of upgrading the MVFMIS was $290,000 and that annual ongoing system maintenance costs are $80,000 to $100,000. This does not include the costs of data input. We found that the MVFMIS continues to be generally unreliable and not extensively used. For example, a comparison of odometer readings and MVFMIS utilization data on 141 vehicles belonging to the three Groups we reviewed showed an average difference of 12,369 km over the life of a vehicle, primarily due to incomplete recording in the MVFMIS. We found that the actual distance these vehicles were driven was about

7.1 million km, compared to the 5.7 million km recorded. There have been mounting internal complaints about the MVFMIS, indicating that the cost information is not useful and that inconsistencies are the norm. None of the Groups was using an exception-reporting system to identify needed maintenance, repair and operating costs or possible abuse. DOT has a major study under way to completely redesign the MVFMIS.

7.84 Maintenance practices are inconsistent in certain programs. DOT's policy is that vehicles should be maintained in accordance with manufacturers' standards. Formal maintenance scheduling for vehicles varies by Group and location. We found that maintenance planning was satisfactory in the Airports Group; however, there was generally no formal scheduling of vehicle maintenance in the Aviation and Marine Groups, except at the few sites we visited that operate vehicle pools. Our general findings on maintenance planning at regional offices were similar to those of the 1987 review by DOT: formal maintenance schedules often were not established to ensure that motor vehicles were serviced to the level required to maintain the validity of manufacturers' warranties. A 1990 DOT study of pooling at regional offices also found inconsistent vehicle maintenance programs and no vehicle safety programs.

7.85 Disposal practices are questionable. We found extensive retention of surplus vehicles by DOT, contrary to its own policy. We reviewed a sample of vehicles replaced by the Airports, Aviation and Marine Groups during 1988-89 and 1989-90. About 61 percent of the vehicles had been retained for more than 30 days after the new vehicles were received, with the average period being 226 days. DOT's 1987 review found no system in place to ensure that vehicles being replaced were disposed of as indicated. The continued use of such vehicles indicates that DOT may have spent funds in advance of need. We estimate that the foregone interest on the money spent in advance of need was $349,000 over 1988-89 and 1989-90.

***Department of Transport's response:** The audit from the Office of the Auditor General reiterates many points made in internal reviews. Corrective action plans have been prepared and the Department plans a number of major changes with respect to all aspects of the management of its motor vehicle fleet. A new policy will be implemented shortly, and major reductions to the fleet are planned over the next two years. Additionally, monitoring systems will be improved to provide the necessary management information.*

Department of Agriculture

7.86 Transportation planning does not consider needs. At September 1990, the Department of Agriculture (DOA) had about 2,200 vehicles. We reviewed vehicle management in the three largest branches of DOA with 97 percent of the fleet. We examined eight locations controlling about 950 vehicles. Generally, we did not find an assessment of vehicle needs in relation to operational goals, or alternative ways of meeting transport needs. Unless programs change, allocation of vehicles is usually permanent. DOA vehicle replacement plans assume a continuing need for DOA vehicles. Regional transportation needs are met on the basis of historical patterns. The three branches we examined generally replace vehicles with new vehicles without considering or acting on alternatives. DOA has established an inter-branch committee to address its problems with vehicle management.

7.87 Vehicle justifications are unsatisfactory. Most DOA purchases are to replace existing vehicles — for which DOA requires little justification — and there is seldom a review of whether a vehicle continues to be needed. Further, where justifications for purchases are prepared, they are developed after replacement has been approved and we found they were missing key data. For example, the Ontario and Quebec regions of Food Production and Inspection Branch (FP&I) send an annual replacement priority list, based primarily on kilometres driven and vehicle age, to Food Production and Inspection headquarters with very brief reasons for replacement (the reason usually provided is "replace"). Based on this information, headquarters allocates the necessary funds, and this constitutes the decision to replace the vehicles. The regions then approve the specific vehicles to be replaced. Only at this point are justifications prepared. We found that these after-the-fact justifications and the supporting economic analysis gave a routine explanation, consisting of a brief statement of vehicle duties and kilometres driven. Information was usually missing on vehicle condition. In Food Production and Inspection Ontario, even if an analysis indicated that an alternative would be more efficient, a new vehicle was purchased.

7.88 The Prairie Farm Rehabilitation Administration Branch (PFRA) has set up a vehicle committee to review vehicle acquisitions and related matters. However, its vehicle replacement process is similar to that of Food Production and Inspection. PFRA often replaces a vehicle with a different type of vehicle without adequate documentation to support such changes. For example, the purchase of air conditioning as an option is used as an incentive to area offices to accept a smaller replacement vehicle.

7.89 **Utilization reviews indicate that fewer vehicles may be needed.** A substantial proportion of DOA vehicles may be underutilized. For example, during the peak demand period of May to October at the Research Branch locations we reviewed, 52 percent of the vehicles were used less than the seasonally adjusted benchmark of 9,000 km. Given this percentage of underutilization, the fleet size could be reduced by up to 27 percent. If these findings are representative of the Branch as a whole, there may be major savings possible in capital, maintenance and administrative costs. Capital cost savings alone in replacements could be up to $2.8 million. In Prairie Farm Rehabilitation Administration, excluding the community pasture program vehicles, we found that 22 percent of vehicles were underutilized. If vehicles could be shared to a greater extent, up to 7 percent of the fleet could be eliminated. Capital cost savings alone to the Branch could be up to $470,000.

7.90 Generally, Food Production and Inspection assigns vehicles to individuals on a dedicated basis. At FP&I Ontario and Quebec we found that 19 percent and 24 percent of their vehicles, respectively, were driven less than 18,000 km a year. If these vehicles could be shared, the fleet sizes at FP&I Ontario and Quebec could be reduced by an average of 4 percent and 7 percent respectively, for a combined average reduction of up to 6 percent. If these findings are representative of the Branch as a whole, there could be a capital cost savings alone of up to $630,000.

7.91 **Monitoring information is not used.** Currently, DOA pays about $103,000 annually for reports from the DSS Fleet Management Information System. The reports are generally not used to manage vehicles because DOA states that they lack timeliness and accuracy. DOA plans to have its own system operational by April 1993. DOA could not identify the cost of this new system because it is being developed as part of a larger materiel management system.

7.92 **Maintenance is inconsistent in certain programs.** The manufacturers' suggested guideline for servicing standard passenger vehicles is usually 12,000 km or one year. Generally, DOA branches use 5,000 km driven as a guideline. Servicing was left to the discretion of drivers in Food Production and Inspection. We found that it could be inconsistent. About 34 percent of FP&I Ontario vehicles were being serviced only between 20,000 and 39,000 km. For example, one new vehicle had its first oil change after 30,390 km, then a second oil change one month and 1,383 km later; the next month, after an additional 3,372 km, the oil was changed again.

7.93 **Disposal practices are of concern.** Some vehicles are disposed of prematurely because of DOA's process of allocating funds. Disposal is based on the availability of funds rather than on an adequate needs analysis. For example, Prairie Farm Rehabilitation Administration has replaced vehicles that were still in good or fair condition.

7.94 We found that all three DOA branches have retained old vehicles for extended periods of time after the arrival of the replacement vehicles. Officials stated that the vehicles were retained because they were still usable or they were needed. As a result, the three branches are actually acquiring additions to the fleet rather than replacements. This practice further calls into question the justifications for replacing vehicles. At the sites we reviewed, a total of 45 vehicles (5 percent) were retained longer than three months and 18 were retained for more than one year. The capital cost of these new vehicles in 1990 is estimated to be $560,000. If the percentage of surplus vehicles retained were representative of the branches as a whole, the capital cost of the "additional" vehicles in 1990 would be about $1 million.

Department of Public Works

7.95 **Transportation planning does not sufficiently consider costs and benefits.** At the time of our audit the Department of Public Works (DPW) had about 550 vehicles. We examined the management of 225 vehicles at various DPW locations. DPW has not assessed transportation needs in relation to operational objectives and has not sufficiently assessed the costs and benefits of alternatives to acquiring vehicles. At July 1990 DPW owned 591 vehicles and had long-term leases for 29 vehicles, costing $391,000 for the term of the lease; in 1989-90, it paid employees $1.8 million to drive personally owned vehicles 6.2 million kilometres — this is equivalent to 344 vehicles each driven 18,000 km annually. These figures do not include monthly rentals since DPW does not collect this information. The POV figures also do not include the Quebec Region, which did not provide complete information to DPW headquarters on the use of personally owned vehicles as required by DPW policy.

7.96 **Vehicle justifications are insufficient.** Generally DPW's needs analysis for individual vehicle acquisitions is insufficient. We examined 34 out of the 55 requests in 1990 for new and replacement vehicles in the regions we audited. The requests simply stated that a vehicle was needed. Analysis of costs, benefits and alternatives to purchasing either were not done or lacked key information, such as why leased vehicles were needed.

7.97 **Utilization reviews indicate that fewer vehicles may be needed.** Generally, utilization of vehicles is not assessed in DPW. We found only one region using annual utilization data to assess whether vehicles could be pooled or transferred to other locations. Its analysis assumed that the existing fleet would continue to be used to the same extent. It recommended a reduction of about 14 percent in its 145-vehicle fleet for 1991.

7.98 Available data indicate that a significant proportion of DPW vehicles may be underutilized. For example, our analysis of daily utilization at one location with about a dozen vehicles showed that two thirds of the vehicles were used, on average, about 40 percent of the estimated 200 working days. We also analyzed annual utilization data on the pool of 18 vehicles at another location. On the basis of available data on monthly usage for three years, we estimate that the average annual use was 8,300 km, with only three vehicles exceeding 10,000 km annually. If each vehicle were driven at least 18,000 km annually, there could be a potential reduction of 53 percent in the number of pooled vehicles. The same location also spends about $180,000 on taxis. Data on the amount of POV use at the same location was not readily available. DPW has not assessed the appropriateness of the above vehicle usage patterns.

7.99 **Monitoring**. DPW paid about $26,000 annually for DSS Fleet Management Information System services, but made little or no use of this system to monitor vehicle operations. At April 1991 DPW had implemented its own system and opted out of the FMIS. The cost of developing the new system was $22,000.

7.100 **Maintenance varies.** The adequacy of vehicle maintenance planning varies across regions. At most of the audited sites with vehicle pools, all passenger vehicles were generally serviced on a 5,000 km cycle. At sites without pools, there is no formal maintenance planning. Users of assigned vehicles are expected to schedule and obtain the appropriate service at the right time, on their own initiative. We were not able to review all maintenance records because files were incomplete.

7.101 Generally, the DPW locations we examined do not have the capability to assess whether repairs are needed or the charges appropriate. For example, one region sends all its vehicles to a local garage. While doing routine maintenance, the garage also examines the vehicles for any deficiencies and reports orally to DPW. The additional work is routinely approved. DPW usually relies on the garage to determine that the work is necessary and to identify any warranty work which should be referred to a dealer. The site does not have the capability of reviewing whether the work performed by the garage is appropriate.

7.102 Disposal is satisfactory. DPW does not retain surplus vehicles.

Department of Public Works' response: *The Department has recently implemented two initiatives to improve the management of its vehicle fleet. The first effective 1 May 1991 a National Vehicle Information control system was installed. The second was the update of the Motor Transport Vehicle Chapter of the Materiel and Facilities Management Manual.*

Chapter 8

Debt Management and Employee Pensions

Debt Management and Employee Pensions

Main Points

8.1 A substantial portion of the federal annual budgetary deficit is financed through internal borrowing from accounts that the government administers on behalf of third parties. The largest internal borrowing is from federal employee pension accounts. As a result, $71 billion, or about 18 percent of the $399 billion gross public debt, was owed to employee pension accounts at the end of 1989-90. If the Department of Finance's projections that external financing will be reduced to zero by 1994-95 are achieved, it is estimated that the amount owing to employee pension accounts will represent 23 percent of the total public debt (paragraphs 8.8 and 8.9).

8.2 The long-term financial implications of borrowing from pension accounts have not been reviewed since the present pension legislation came into effect in 1954. Certain events that have transpired since then raise questions about the appropriateness of the present arrangements and indicate the need to evaluate them (8.27 to 8.39).

8.3 Interest (notional investment earnings) credited to the pension accounts is based on the government's long-term borrowing rates. It is widely agreed that these rates are between 1 and 2 percent lower, on average over the long term, than the rates of return earned by pension plans with marketable assets. This has resulted in the government assuming greater actuarial deficits (8.40 to 8.45).

8.4 At the same time, internal borrowing from pension accounts receives little attention from the Department of Finance debt managers because the borrowings are non-cash transactions (8.46 to 8.49).

8.5 Over the years, contributions have exceeded pension payments. This has helped to expand internal borrowings and reduce external borrowing requirements. Pension payments now exceed contributions, which means higher cash requirements for the government. This reversal reflects, in part, the decline in the ratio of contributors to beneficiaries. Nevertheless, borrowings from pension accounts continue to grow, mainly because of compounding interest credited to these accounts (8.50 to 8.56).

8.6 We also observed that information on pensions and public debt owing to pension accounts is not clearly presented in the Estimates and the Public Accounts. Consequently, internal borrowings from pension accounts and other specified purpose accounts are not scrutinized by Parliament in the same manner as borrowings from the general public (8.59 to 8.72).

Table of Contents

Paragraph

Background

External and Internal Borrowing 8.7
Public Debt and Pension Accounts 8.9
Present Employee Pension Arrangement 8.11
Pension-related Budgetary Expenditures 8.19
Accounting for Pension Obligations 8.20

Audit Objective and Scope 8.23

Observations and Recommendations

Need for Evaluation of Current Financing Arrangements 8.27
- Fiduciary responsibilities for employee pension plans are not consistent with those prescribed for other federally regulated pension plans (8.31)
- Rates of interest credited to the pension accounts are significantly lower, on average over the long term, than rates of return earned by pension plans with capital market assets (8.40)
- Internal borrowing from pension accounts is largely outside the influence of debt management operations and has received little attention from debt managers (8.46)
- Annual pension payments now exceed contributions, which means higher cash requirements for the government (8.50)

Information for Parliament 8.59
- Information to Parliament on pensions is not clearly presented (8.59)
- Inadequate information limits parliamentary scrutiny of borrowings from pension accounts (8.68)

Exhibits

8.1 Federal Government Liabilities by Category of Debt
8.2 The Pension Arrangement
8.3 How Employee Pensions Are Accounted For
8.4 SPA Account Balances, March 1990
8.5 Rates of Return by Investment Scenario from 1959 to 1990
8.6 Pension Accounts, Annual Credits and Payments, 1975-76 to 1989-90
8.7 Ratios of Contributors to Pensioners as at 31 March

Debt Management and Employee Pensions

Background

External and Internal Borrowing

8.7 For the past two decades the federal government's annual expenditures have exceeded its revenues. This revenue shortfall has been bridged by borrowing, which has led to an increase in the public debt. Exhibit 8.1 summarizes the growth in federal government liabilities by category of debt over the last decade, with projections to 1995-96 based on the February 1991 Budget.

8.8 The government borrows from two sources:

(a) **External:** The government borrows externally from the general public by issuing certificates of indebtedness to lenders. The government's overall statement of assets and liabilities that this Office audits annually (see Vol. I, Section 2 of the Public Accounts) discloses the cumulative outstanding balances of external borrowings as unmatured debt. This is, as evident in Exhibit 8.1, the largest portion of public debt. These external borrowings are undertaken to meet cash requirements. However, not all financing takes place in terms of cash.

A substantial portion of the government's budgetary deficit is financed through internal non-cash borrowing from specified purpose accounts.

(b) **Internal:** A substantial portion of the government's budgetary deficit is financed through internal non-cash borrowing from specified purpose accounts (SPAs). These accounts are administered by the government for third parties. As defined in the Public Accounts, SPAs represent the recorded value of financial obligations of the Government of Canada in its role as the administrator of certain public moneys received or collected for specified purposes, under or pursuant to legislation, trust, treaties, undertakings, or contracts. In *The Budget* of 26 February 1991, the government described superannuation (pension) and other SPAs as trust accounts. The bulk of borrowings from SPAs comes from pension accounts. These borrowings do not involve cash but rather result from a deferral of payments of contributions and interest owed by the government to the third parties on whose behalf the SPAs are administered. No debt instrument in recognition of amounts borrowed is issued to the accounts or to the third parties.

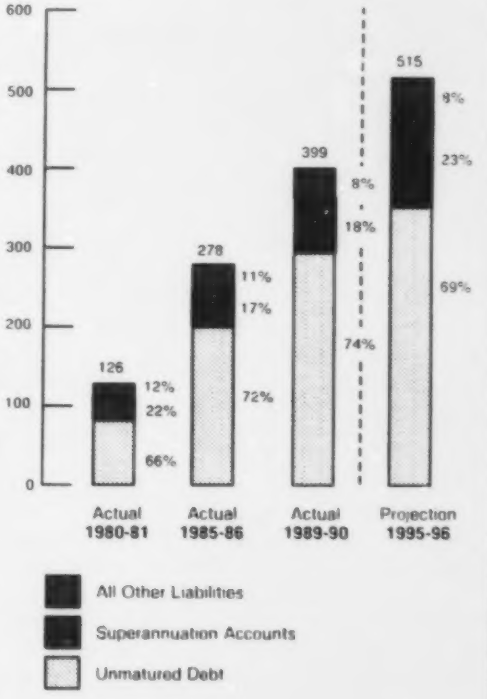
Public Debt and Pension Accounts

8.9 The largest internal borrowings are from the pension accounts of federal government employees. At the end of 1989-90, the outstanding public debt arising from borrowing from SPAs was $78 billion, of which $71 billion or 91 percent was owed to pension accounts. As illustrated in Exhibit 8.1, amounts owing to employee pension plans by the government accounted for about 18 percent of gross public debt outstanding in 1989-90. If the Department of Finance's projections that external financing will be reduced to zero by 1994-95 are achieved, it is estimated that the amount owed to employee pension accounts will represent 23 percent of the total public debt.

8.10 There are separate superannuation (pension) accounts for the three basic employee pension plans established by the federal government – the Public Service Superannuation Account, the Canadian Forces Superannuation Account and the Royal Canadian Mounted Police Superannuation

Exhibit 8.1

FEDERAL GOVERNMENT LIABILITIES BY CATEGORY OF DEBT
($ billions)



Note: **The projection excludes possible impacts of foreign exchange operations**

Sources: *Actuals - Public Accounts. Projection - February 1991 Budget*

Public debt owed to federal employee pension plans accounted for 18 percent of total public debt in 1989-90.

Account. The principles and structures underlying these plans are similar. A fourth superannuation account, the Supplementary Retirement Benefits Account, was established to record receipts and payments associated with provisions to protect the defined benefits of the three basic plans from erosion due to inflation, sometimes referred to as the cost of living indexation plan. Other federal pension plans, including that of Members of Parliament, operate in a manner similar in principle to the employee pension plans; they also have cost of living indexation provisions.

Present Employee Pension Arrangement

8.11 **Legislated arrangement.** All employee pension plans are governed by legislation. The pension arrangements are legislated, not negotiated. Exhibit 8.2 briefly describes the current pension arrangement. Changes to the arrangement are effected through changes to existing pension legislation. For example, in 1986, the government introduced a Bill to substantially reform the pension arrangements. This Bill died on the order paper. We understand that the government is working on a new legislative proposal. The government can also make changes to the pension arrangements through further legislation. For example, in 1970, the government enacted the Supplementary Retirement Benefits Act. Also, in 1983, when wage and price controls were legislated, the indexing factor of the public service pensions was cut back to 6.5 and 5.5 percent for 1983 and 1984 respectively, even though the increase in the consumer price index – to which indexation was tied by legislation – averaged about 7.7 percent during that period. The full indexing provision was re-instituted in 1985.

8.12 The financial foundation of the pension plans is the government's promise to pay pension benefits to qualified employees on retirement and to their beneficiaries after their death. However, the federal employee pension plans are not funded through investment in marketable securities. Instead, the plans' assets are borrowed by the government.

8.13 Other national governments (e.g., U.K. and other countries in the Organization for Economic Co-operation and Development) finance their employee pension plans in much the same way as Canada does. That is, for defined benefit plans, no external funding is undertaken. In some cases, employer and employee contributions are required to be invested in government securities. Interest may or may not be credited in these cases.

Exhibit 8.2

THE PENSION ARRANGEMENT

Component	Public Service Superannuation Act
Type of Arrangement	Defined benefit
Benefits Policy	2% per year based on best 6 years capped at 70% (fully indexed and integrated with Canada Pension Plan (CPP)
Contribution Policy	Fixed matching contributions of 7.5% from employees and employer (6.5% basic less CPP plus 1.0% indexation)
Investment Policy	Interest is credited to basic account balances at 20-year Government of Canada bond rates and to indexation balances at 5-year Consolidated Revenue Fund borrowing rates
Ownership of Surplus	Unstated
Responsibility for Deficit	Employer
Process for Changing Arrangement	Through legislation

The federal employee pension arrangement is legislated (statutory).

8.14 On the other hand, some Canadian provinces are moving away from the internal funding model for pension plans for their public servants. Alberta, for example, established a Public Pension Fund with marketable assets in 1981. Ontario and British Columbia are heading towards a fiduciary-oriented investment philosophy. In Ontario, the assets of the municipal employee pension plan are now invested almost exclusively in the market, except for a relatively small proportion held as non-marketable provincial bonds, and pension funds for teachers and public servants are going in the same direction. Quebec and Manitoba have what is known as "split funding", in which employee contributions are invested in a fiduciary-oriented fund while employer contributions are credited to the pension account only as internal book entries. In these cases, half the benefits are paid from the employee fund, and the government pays the other half from the Consolidated Revenue Fund.

8.15 Investing of pension notional resources. The other side of the pension borrowing arrangement is the notional investment of the pension resources. The government credits interest on its cumulative borrowings from the pension accounts on two different bases: basic accounts are credited with interest at 20-year Government of Canada bond rates and the indexation account is credited at the 5-year borrowing rate as charged on borrowings by Crown corporations from the Consolidated Revenue Fund. In effect, the current notional investment strategy is to invest account balances in the equivalent of 100 percent fixed-income government securities.

8.16 Benefits and contributions. As an employer, the government agrees to pay its employees, when they qualify at some future date, a defined benefit. The government matches (or contributes more in the case of the Canadian Forces and RCMP superannuation accounts) employees' contributions.

8.17 Actuarial liability adjustment. All employee pension plans are valued on an actuarial basis. The government is fully responsible for any actuarial deficiency (i.e., the difference between the present value of estimated future payments and the notional capital value of pension accounts). Thus, from time to time, to bring the pension accounts into line with actuarially determined obligations, the accounts are credited with an actuarial liability adjustment. Actuarial deficiencies arise primarily because earlier assumptions (about mortality, retirement ages, wage and salary increases, interest rates, inflation rates and other relevant factors) underlying actuarial projections turn out to be either too high or too low and no longer represent the best estimate for the future. On the basis of new assumptions, adjustments are made to bring the liabilities recorded in the pension accounts in line with the revised estimates of pension obligations. The cumulative actuarial evaluation adjustment made between 1959-60 and 1988-89 totalled $11.6 billion. Also, in 1989-90, an actuarial liability allowance of $6.7 billion was established to cover the shortfall in the book values of all federal pension obligations to employees, Members of Parliament, federal judges, etc. This allowance was not credited to the accounts.

8.18 Budgetary coverage of shortfall in Supplementary Retirement Benefits (indexation) account. The government is entirely responsible for any shortfall in the indexation account. The Supplementary Retirement Benefits Act enacted in 1970 extended benefits to pensioners and their surviving dependents, although they had made no contributions to help fund these benefits. As well, once an individual pensioner's contributions for indexing and the employer's matching contribution, plus interest earned on contributions and previous earnings, have been exhausted, his/her benefits are charged to budgetary expenditures rather than pension accounts. Between 1973-74, when indexation came into full effect, and 1989-90, a total of $7.7 billion was charged to budgetary expenditures to cover all unfunded indexation benefits. The annual budgetary expenditure to cover indexation shortfall is now close to $1 billion.

In 1989-90, total budgetary expenditures related to the pension plans were $8.2 billion.

Pension-related Budgetary Expenditures

8.19 Annual budgetary expenditures related to the operation of the pension plans are significant. In 1989-90, total budgetary expenditures related to the plans were $8.2 billion, consisting of:

	$ millions
Employer contributions	896
Indexation benefits charged to budgetary expenditures	966
Interest credited to accounts	6,373
	8,235

Accounting for Pension Obligations

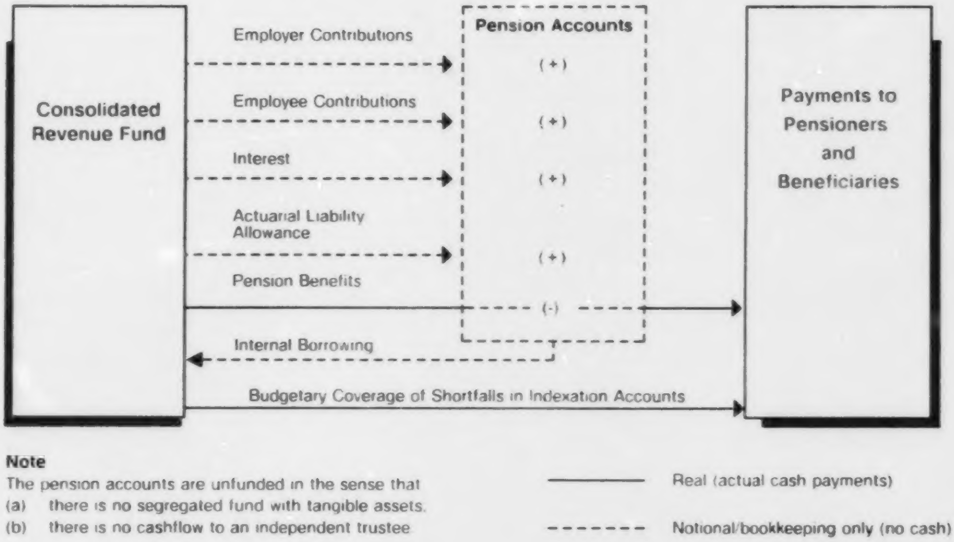
8.20 Exhibit 8.3 illustrates how the financial transactions are recorded in the Public Accounts. Under this arrangement, the government *credits* employee and employer contributions to the pension accounts, along with interest due on the account balances. There are no cash flows into the accounts from the Consolidated Revenue Fund and no cash outflows from the accounts to pensioners. The government pays pensioners and beneficiaries from the Fund and *debits* these payments to the accounts. In effect, the government borrows the difference between annual credits and debits to the pension accounts as follows:

- employee contributions deducted from pay cheques – credited but not "paid" to the accounts, *plus*
- employer contributions due from the government – credited but not "paid" to the accounts, *plus*
- interest the government "owes" on pension account balances – credited but not "paid" to the accounts, *minus*
- the payment of benefits to the plans' retired employees and their beneficiaries –debited to but not "paid" from the accounts.

8.21 Basically, the pension accounts reflect the government's indebtedness to pensioners and plan members based on the pension promise. Thus, from time to time, actuarial liability adjustments, due from the government as employer and plan sponsor, are made to bring the account balances in line with pension actuarial obligations. These are credited but not "paid" to the accounts.

Exhibit 8.3

HOW EMPLOYEE PENSIONS ARE ACCOUNTED FOR


Consolidated Revenue Fund
Employer Contributions
Employee Contributions
Interest
Actuarial Liability Allowance
Pension Benefits
Internal Borrowing
Budgetary Coverage of Shortfalls in Indexation Accounts
Pension Accounts
(+)
(+)
(+)
(+)
(-)
Payments to Pensioners and Beneficiaries
Real (actual cash payments)
Notional/bookkeeping only (no cash)

Note
The pension accounts are unfunded in the sense that
(a) there is no segregated fund with tangible assets.
(b) there is no cashflow to an independent trustee

The government borrows the difference between the annual credits and debits to the pension accounts.

8.22 In 1989-90, the amount borrowed from pension accounts was $6.4 billion, consisting of:

	$ million
Employer contributions	1,050
Employee contributions	931
Interest on account balances	6,373
Other	46
Sub-total	8,400
Less pension benefit payments	2,016
Total borrowing from pension accounts in 1989-90	**6,384**

***Treasury Board Secretariat's response**: The government does not borrow funds directly from the public service pension accounts to finance other spending activities. The government has borrowed from the pension accounts only in the sense that by not raising money to invest required employee and government contributions in marketable securities it has not had to borrow money in the capital markets.*

Audit Objective and Scope

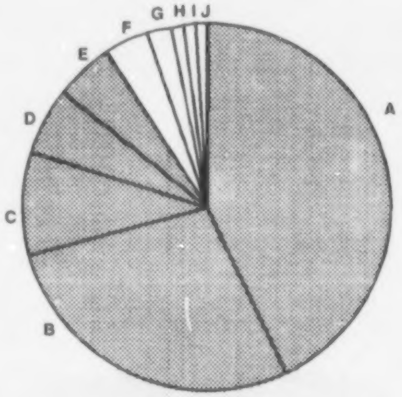
8.23 Our audit objective was to assess how the government takes into account the long-term financial implications of the current pension arrangements, particularly borrowing from pension accounts, when reviewing its financial requirements and whether these internal borrowing activities are carried out with adequate disclosure and accountability to Parliament.

8.24 While our audit required an understanding of how the pension arrangements are administered, we did not audit this aspect of the pension plans.

Exhibit 8.4

SPA ACCOUNT BALANCES
March 1990
($ billions)

	ACCOUNTS			
▨	A	Public Service	33.9	43%
▨	B	Canadian Forces	21.7	28%
▨	C	Actuarial Liability Allowance	6.7	9%
▨	D	Supplementary Retirement Benefits	5.1	6%
▨	E	Royal Canadian Mounted Police	3.6	5%
	Total Superannuation Accounts		***71.0***	***91%***
☐	F	Canada Pension Plan	3.0	4%
☐	G	Provincial Tax Collection Agreements	1.4	2%
☐	H	Deposit and Trust	1.1	1%
☐	I	Government Annuity	0.9	1%
☐	J	Other SPAs	0.9	1%
	Total Other SPAs		***7.3***	***9%***
	TOTAL SPAs		***78.3***	***100%***



Source: Public Accounts

The Public Service Superannuation Account is the largest of all SPAs and the largest of all federal employee pension accounts.

8.25 Our audit work concentrated on the Public Service Superannuation Account, which, as Exhibit 8.4 illustrates, is the largest of all superannuation accounts and by far the largest of all specified purpose accounts.

8.26 Our audit involved the following central agencies: Department of Finance, which is responsible for managing government borrowings and the public debt (including public debt owing to pension accounts); Treasury Board Secretariat, which is responsible for program management and for policy evaluation, development and implementation of public service pensions; and the Office of the Comptroller General, which, along with Finance, is responsible for recommending the form of the Public Accounts (including accounting for pensions).

Observations and Recommendations

Need for Evaluation of Current Financing Arrangements

8.27 Because of the significant impact of borrowings from pension accounts on the management of the government's financial requirements and given the government's policy on program evaluation, we would expect the financial implications to be evaluated periodically.

8.28 The Department of Finance annually assesses the structure of the outstanding unmatured debt owing to the public and formulates recommendations to the government on external borrowing and the debt management program. There have been no studies of the long-term implications for future deficits and financial requirements of borrowing from pension accounts to finance government operations since the present legislation came into effect in 1954.

There have been no studies of the long-term implications for future deficits and financial requirements of borrowings from pension accounts to finance government operations since the present legislation came into effect in 1954.

8.29 In 1977 and 1985, studies of the pension plans were done for the Treasury Board by independent actuarial consultants. While both studies reviewed the financial position and future costs of the plans and the 1985 study looked at the implications for the pension account balances of investing the pension assets, they did not examine the long-term financial implications of borrowing from pension accounts for financing government activities. Moreover, we are not aware of any other central agency review of these issues.

8.30 Since the introduction of the pension legislation in 1954, a number of events that have transpired raise questions about the appropriateness of the existing financial arrangements covering pension plans in today's environment and indicate the need to evaluate them. The Pension Benefits Standards Act (PBSA), which sets out standards for pension plan financing and fund management, was introduced in 1967 and updated in 1987. The present arrangements do not conform fully with the PBSA standards, yet the implications of this inconsistency has not been examined. The average rate of return accruing to the accounts since 1959 has been significantly lower than those earned by other private and public service plans with market assets. Benefit payments for the federal employee pension plans now exceed contributions. As well, amounts owing by the government to employee pension accounts have been a significant percentage of its total obligations, yet borrowing from pension accounts receives little attention from Department of Finance debt managers. In view of this, we believe that a comprehensive analysis of the present financing arrangements is essential to everyone's interest – the government's treasury operations, taxpayers, who ultimately finance the government's operations, and plan members. The consequences of current pension arrangements for future deficits and financial requirements need to be examined by the government on a regular basis.

Fiduciary responsibilities for employee pension plans are not consistent with those prescribed for other federally regulated pension plans

8.31 The PBSA sets out standards for pension plan financing and fund management. The PBSA requirements reflect generally accepted principles of pension fund management. Four key principles or standards contained in the Act are relevant to any evaluation of the long-term financing and borrowing implications of federal pension arrangements.

1. An employer shall ensure, with respect to its pension plan, that pension fund moneys are held in trust for the members and former members of the pension plan.
2. A pension fund shall be administered by a board of trustees pension committee, one member of which shall be a representative of the employees.
3. The administrator shall have a clear fiduciary responsibility for the fund.
4. The fund shall be prudently invested.

8.32 These standards are intended to protect the interest of plan members by ensuring that meeting pension promises (benefits payments) is not dependent on the good will of employers. The Act applies to pension plans of businesses and other organizations under federal jurisdiction.

However, Parliament excepted the federal government from the provisions of the PBSA.

8.33 It would be reasonable, however, to expect that the implications of this exception from PBSA requirements would be fully assessed, particularly as they pertain to fiduciary responsibility for, and prudent investment of, pension funds.

8.34 Through the enabling legislation, the government acts as plan sponsor, custodian, "trustee", administrator, and investment policy maker. This arrangement is not consistent with the standards prescribed in the PBSA.

8.35 In administering the federal employee pension accounts, the government has an obligation to manage the pension plan resources for the benefit of plan members. However, pension moneys are not held at arms length and, as noted before, the government is, de facto, borrowing from the pension "trust" accounts at rates that it sets. This situation would not be permitted in any legal trust arrangement.

8.36 Fiduciary responsibility for the pension plans are not clearly assigned. The decisions of both the Treasury Board and the Minister of Finance can affect the pension accounts balances. Treasury Board Secretariat calculates the rates of interest credited to the accounts in accordance with regulations set by the Treasury Board. The Minister of Finance has the authority to direct that any actuarial deficiency resulting from actuarial reviews be credited to the appropriate account. While the Department of Finance is responsible for managing the government's borrowing requirements, it is not concerned with the fiduciary implications of borrowing from pension accounts. As part of its debt management functions, in computing the public debt charges, Finance applies the rates calculated by Treasury Board Secretariat to the government borrowings from the pension accounts. This would imply that the amount of notional investment earnings credited to the pension "trust" accounts is determined by borrowing conditions and raises questions as to whether the fiduciary interests of plan members, beneficiaries and the employer are adequately served.

8.37 On the one hand, fiduciary management requires prudent investment of resources to optimize returns within specified strategic constraints. On the other hand, Finance's debt management operation has an obligation to minimize borrowing costs. Thus, it would appear that this arrangement cannot simultaneously satisfy the government's role as a fiduciary (investment) manager for the pension accounts and its role as a treasury (deficit and debt financing) manager. The present arrangement may be perceived as having legislated an automatic resolution of this conflict. As well, since the government makes up any deficiencies in the accounts, it may be perceived that this conflict has been mitigated. However, there are still questions as to the extent to which the present legislatively set formula can simultaneously satisfy both interests.

The present pension arrangement cannot simultaneously satisfy the government's role as fiduciary (investment) manager for the pension accounts and its role as treasury (deficit and debt financing) manager.

8.38 In 1986, the government introduced Bill C-33 to restructure and strengthen the financial arrangements for federal employee pension plans. By providing for the establishment of a pension management board, the Bill would have brought the present arrangements closer to the PBSA standards, although full fiduciary responsibilities were not to be assigned to the board. The Bill died on the order paper.

8.39 The government should consider establishing clear fiduciary responsibility for federal employee pension plans.

Treasury Board Secretariat's response: *As noted in this chapter the pension plans for* *federal public servants are governed by statute. The benefits provided under the various plans are set out in and guaranteed by legislation. As such they are not determined by the method used to fund or pay for them.*

In addition, the accounting methods, including the overall approach of funding the public service plans internally and recording the liabilities as part of public debt, rather than investing the contributions in marketable securities, arises out of legislation.

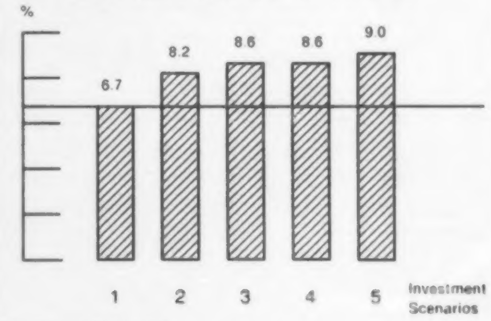
Therefore, both the benefits and funding and financing of public service pensions reflect policies established by Parliament and only Parliament, through legislative action, could change those policies.

In this context, employment by her Majesty in right of Canada is "excepted employment" for the purposes of the federal Pension Benefits Standards Act (PBSA). The funding and plan management requirements arising out of the PBSA are intended to protect the interests of plan members who are employed with companies or corporations whose continued existence is not guaranteed. It is not necessarily appropriate that all requirements of the PBSA apply to the public service pension plans.

There are objective ways of determining what an appropriate contribution rate should be for the public service pension plans for the purpose of demonstrating that plan members have "earned" their benefits regardless of how the plans are funded or financed. Nevertheless, it has long been recognized that if the public service pensions accounts were to be credited with a rate of investment return equivalent to returns realized by plans invested in marketable securities, comparisons between the cost of the public service plans and private sector plans could be more easily and equitably made. Therefore, the rate of return credited to the pension accounts remains a key issue in the public service pension reform process.

Exhibit 8.5

RATES OF RETURN BY INVESTMENT SCENARIO FROM 1959 TO 1990



Investment Scenarios:

1. 100% in Government of Canada bonds (Pension accounts)
2. 30% in equities and 70% in debt
3. SEI* Median
4. 40% in equities and 60% in debt
5. 50% in equities and 50% in debt

---

* SEI (Simulated Environment Inc.), an investment performance measurement firm, ranks the rates of return of most of the larger trusteed pension funds on a regular basis. SEI median fund can be thought of as representing the average performance of pension funds in Canada.

Over the period 1959-60 to 1989-90, if a market investment strategy had been followed, the rate of return on the federal employee pension accounts could have been, on the average, over 1.5 percent higher than the interest rates credited to them.

Rates of interest credited to the pension accounts are significantly lower, on average over the long term, than rates of return earned by pension plans with capital market assets

8.40 We engaged actuarial consultants to compare the notional investment performance to the rates of return that the pension plans' notional financial assets could have earned had they been invested through the market. A number of different scenarios were developed for the 31-year period from 1959 to 1990, for which consistent data were available from Treasury Board Secretariat. The annual rates of return are compared in Exhibit 8.5 for various scenarios.

8.41 As can be seen from the exhibit, over the entire 31-year period, a market investment strategy would have resulted in annual rates of return from 1.5 to 2.3 percent higher than the notional bond investment strategy applied to the pension accounts. The reader should note, however, that there have been periods (1970 to 1974 and 1985 to 1990) when such market strategies may not have produced better returns. Nevertheless, the intrinsic strength of a market-based investment fund is founded on the long-term growth of the economy, even recognizing downturns in the business cycle from time to time.

A market investment strategy would have resulted in significantly higher returns than the notional bond investment strategy applied to the pension accounts over the past three decades.

8.42 Financial managers, actuaries and government officials generally agree that, over the long term, a diversified portfolio of market investments will yield rates of return higher than interest rates credited to the pension accounts. Thus, the government's Chief Actuary indicated in his 1986 actuarial report on the Public Service Superannuation Accounts that the present notional investment strategy might result, over an extended period of time, in approximately a one percent per year lower rate of return on the total accounts balance than one might reasonably expect from private sector pension funds. Also, data maintained by Treasury Board Secretariat's Pension Division show that, over the previous 30 years, the average rate of return credited to the notional accounts was more than one percent lower than the average annual median return earned by pension funds with marketable securities.

8.43 The lower the interest rate credited to the pension accounts balances, the higher the actuarial deficits (the difference between the actuarial present value of all future benefits that have been earned for services provided and the pension accounts balances). The higher rates of return that the pension accounts could have earned had a market investment strategy been followed over the long term could have substantially reduced or totally eliminated these actuarial deficits. Likewise, budgetary expenditures to cover shortfalls in the indexation account might have been reduced in whole or in part. Consequently, the deficit and debt accumulation could have been lower if a market investment strategy for the pension accounts had been followed from the start.

8.44 In a notional sense, the lower the interest rate credited to pension accounts balances is, the lower the recorded interest on the public debt will be. However, as indicated above, any shortfall in the balances in the pension accounts compared to actuarially determined obligations must be made up by the government alone. The lower the interest rate attributed to the pension accounts is, the higher these supplemental contributions that are charged to budgetary expenditures will be. In the end, the long-term implications for the deficit and the public debt of a notional investment strategy for the pension accounts are not known and need to be evaluated.

8.45 If Bill C-33 (1986) had been passed, it would have established a new basis for determining interest credited to the pension accounts. In the arrangement envisaged, interest credits on future contributions were to be based on the average returns achieved by 10 plans chosen in advance from a sample of 50 large private sector plans invested in balanced portfolios. This arrangement proposed in the Bill might have resulted in higher interest credits to the accounts (and higher interest on the public debt), lower actuarial deficits and lower shortfalls in the indexation account. However, interest on pension debt would still not have been paid in cash; the long-term impact of this deferral of payment on fiscal management will remain obscure until fully examined.

Internal borrowing from pension accounts is largely outside the influence of debt management operations and has received little attention from debt managers

8.46 We would expect borrowing strategies to be based on the overall objective of borrowing appropriate amounts at appropriate times and at least cost over the long term, given constraints.

8.47 The present legislative arrangement for the pension accounts provides the government with a captive source of financing. However, borrowing from pension accounts is largely outside the influence of the Department of Finance's debt management operations, since they have no discretion as to the amount borrowed, the interest rate applied or the term to maturity. In effect, Finance, as the public debt manager, is required by law to borrow from the pension accounts at the current market rate regardless of the need to borrow. Once established, the notional rates of interest accruing to the basic pension accounts are locked in for 20 years. These borrowing costs change only with a long time lag following changes in market conditions. Furthermore, no debt instruments are issued or traded and no cash is involved when borrowing from or crediting interest to the pension accounts, and internal borrowing has no direct impact on market interest rates.

8.48 The objective of Finance's debt management operation is to meet the government's borrowing requirements while minimizing total long-run debt costs and the impact of changes in interest rates on debt charges. A necessary condition for the attainment of this objective is the flexibility to establish and change the total debt structure (mainly through incremental borrowings – new and roll-over – but also through swap arrangements and other debt management techniques) in light of changing market conditions. However, this flexibility is not available with respect to debt incurred under the present legislated pension plan arrangements. As well, cost-minimization strategies that are appropriate for the management of external borrowing, debt servicing and debt refinancing – all of which are cash transactions – may not be applicable to borrowing from pension accounts. Therefore, the integration of internal with external borrowings should be kept under regular examination to ensure that it does not impinge on the overall debt strategy.

8.49 In its most recent annual debt strategy review, Finance illustrated how borrowing from the pension accounts affects the term structure of new debt to be issued over the five-year fiscal planning horizon. The Department has also indicated to us its intention, in its next debt strategy review, to review borrowings from the pension accounts over a longer term, taking into account the impact of the expected drop in financial requirements and increased flows from pension accounts. This review should include an analysis of the long-term implications for the deficit and the public debt of alternative pension plan funding and financing arrangements.

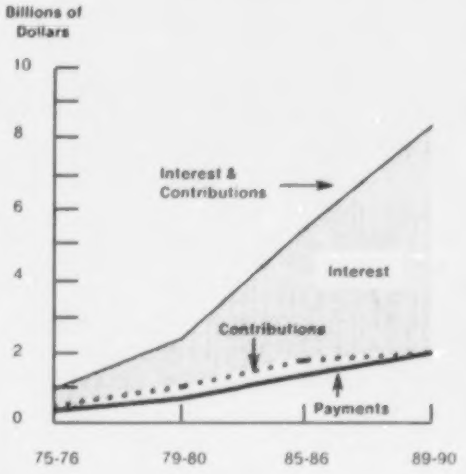
Total pension payments exceeded contributions as early as 1980-81.

Annual pension payments now exceed contributions, which means higher cash requirements for the government

8.50 For many years, the annual combined (employer and employee) contributions to the pension accounts exceeded the benefits (paid to pensioners and their beneficiaries) charged against these accounts. The surplus of contributions, plus interest credited to account balances, less pension benefits, has meant that the government could cover a large portion of budgetary expenditures related to pension accounts without having to borrow in the market. That is, the excess of contributions over payments has helped to expand internal borrowing and reduce external borrowing requirements. However, in 1989-90, as illustrated by Exhibit 8.6, combined benefit payments from all pension accounts (excluding indexation benefits charged to budgetary expenditures) exceeded annual contributions. Total pension payments, including benefits

Exhibit 8.6

PENSION ACCOUNTS ANNUAL CREDITS AND PAYMENTS 1975-76 TO 1989-90



In 1989-90, benefit payments from all pension accounts exceeded contributions. Total credits and pension account balances are increasing mainly because of compounding interest credited to the accounts.

charged to the Consolidated Revenue Fund to cover indexation account shortfall, exceeded contributions as early as 1980-81.

8.51 The following points are evident from Exhibit 8.6:

- Up to 1989-90, contributions exceeded pension payments, which meant lower cash requirements for the government.
- The rate of growth of payments has been significantly greater than that of contributions, leading to the disappearance of the "favourable" cash requirement gap last year and to the prospect of an expanding "unfavourable" cash requirement gap in the future.
- Pension account balances are increasing mainly because of the compounding interest credited to the accounts.

If the above trends continue into the future, pension payments may well continue to climb sharply. This will mean higher cash requirements for the government. Given the defined benefits, this will have to be met through one or more of the following: a higher contribution rate; higher external borrowing; higher taxes; or lower expenditures on other things.

8.52 The fact that payments now exceed contributions reflects, in part, the decline in the ratio of contributors to pensioners. Exhibit 8.7 below illustrates the decline in this ratio for the superannuation accounts of the Public Service, the RCMP and the Canadian Forces, between 1978 and 1990.

8.53 The decline in the number of contributors per pensioner is projected to continue, which means that the gap between pension payments and contributions will tend to open further as time passes.

8.54 The trend in contributions, payments and the ratio of contributors to pensioners

Exhibit 8.7

RATIOS OF CONTRIBUTORS TO PENSIONERS AS AT 31 MARCH

	1978	1981	1984	1987	1990
Public Service Superannuation Account (PSSA)					
Number of contributors per pensioner	4.4	3.7	3.3	2.7	2.5
Canadian Forces Superannuation Account (CFSA)					
Number of contributors per pensioner	1.6	1.4	1.4	1.3	1.3
RCMP Superannuation Account (RCMPSA)					
Number of contributors per pensioner	14.1	8.6	7.0	5.8	4.5

Source: PSSA, CFSA, and RCMPSA Annual Reports. Strength figures were used in lieu of contributors for the CFSA for 1978, 1981, and 1984.

The number of contributors per pensioner is declining, and this decline is expected to continue.

raises concerns that the present method of funding pension benefits may be shifting the debt burden forward to future taxpayers. As a result, there is a need to examine the financial implication of these trends. Two points are worth noting in this connection.

8.55 First, unless the rate of return on investments (notional or real) reflects a market rate of investment earnings, there is no objective basis for evaluating the correctness of contribution rates vis-à-vis the defined level of benefits.

8.56 Second, under the present arrangement, cash for the payment of benefits comes solely from current revenues – taxes in the main – or from borrowing from the public; there is no additional source of income from an invested pension fund to help with the overall financing. In the case of pension plans with marketable securities, investment earnings provide the main source of funding benefit payments once the funds are well established. In other words, a market-oriented pension fund could, over the long run, put less of a burden on taxpayers by reducing reliance on government revenues for financing pension benefits.

A market-oriented pension fund could put less of a burden on taxpayers by reducing reliance on government revenues for financing pension benefits.

8.57 The lower, long-term, average investment return of the present notional investment policy and the implications of indexation shortfalls for the budgetary deficit and the public debt, along with the trend in contributions and payments, strongly suggest that all aspects of the financing arrangements for the pension plan should be reviewed. Obviously, the financial, economic and political complexities of any change in the status quo would require careful consideration. Furthermore, the experience of other jurisdictions, such as that of provincial governments, that have embarked on funded pension plans would be useful in such a review.

8.58 The government should undertake a study of the costs/benefits and long-term implications of alternative financing arrangements of its employee pension plans. This should include an evaluation of the implications of the current notional investment policy on the deficit, financial requirements and the public debt.

Department of Finance's response: *An internal study of the long-term implications for the deficit and debt management of the existing financing arrangements for the pension plans will be jointly undertaken by Finance and the Treasury Board Secretariat.*

Treasury Board Secretariat's response: *The number of contributors to the public service plans has actually decreased in recent years, both in absolute numbers and in relation to Canada's population. Therefore, the cash requirements for paying the future pension benefits of federal public servants are not expected in the long term to become a burden on the taxing or borrowing capacity of the federal government.*

The Treasury Board Secretariat and the Department of Finance do intend to review the implications of the current financing and funding system for public service pensions.

It should be noted, however, that there are many considerations beyond simply debt management or comparative rates of return in assessing the desirability or feasibility of investing federal pension plan moneys in marketable securities. Such issues would include the capacity of the markets to absorb large amounts of new money, control of the funds, potential concentrations of financial power and the ability to maintain arm's length relationships.

Information for Parliament

Information to Parliament on pensions is not clearly presented

8.59 We would expect Parliament to be provided with sufficient information to fully scrutinize all the government's borrowing activities, including those involving captive funds, such as pension accounts.

8.60 We would also expect borrowings from pension accounts to be identified and reported in the Estimates and the Public Accounts as internal borrowings and the cumulative obligations to be clearly reported as public debt in the Public Accounts.

8.61 Parliamentarians rely on a number of sources of information to facilitate their review of government operations. For financial information, they use Part III of the Estimates and the Public Accounts. Information on employee pension plans in these documents is inadequate and inconsistent.

8.62 Program costs and liabilities for employee pensions are significant, and Parliamentarians should be provided with both an overview and details of these costs and liabilities in both forecast (Estimates) and actual (Public Accounts) accountability documents. In 1989-90, pension-related expenditures amounted to over $8 billion, and outstanding employee pension liabilities amounted to $71 billion.

8.63 **Public Accounts.** In the government's summary financial statements in Section 2 of Volume I of the Public Accounts, the balances in the federal employee pension accounts are included under the general classification of specified purpose accounts and are not clearly presented as public debt. The nomenclature of SPAs may be useful for general ledger control purposes, but the accounting treatment in the financial statement is inconsistent. In the National Accounts presentation, which is used for economic analysis, pension accounts are included as a component of public debt.

8.64 The Public Accounts also provide details of pension costs, but the link between public debt and interest on public debt is far from clear. Interest on the public debt includes interest credited to pension accounts and other SPAs, as well as interest paid on unmatured debt held by the general public. Although interest credited to employee pension accounts is included in public debt cost in the government's statement of revenue and expenditure, the balances in the accounts themselves are not included as unmatured debt in the statement of assets and liabilities. If we compare interest expenses for 1989-90 to unmatured debt, the average rate of interest appears to be over 13 percent. In fact, for all public debt, including that held by SPAs, the actual average rate is under 11 percent. This potential for confusion could be removed by showing charges on public debt arising from external and internal borrowings, separately and collectively, in a note to the financial statements.

8.65 **Estimates.** The three major employee pension plans are administered under separate departments. The Department of National Defence administers the military plan, and the RCMP administers the plan for members of the force. The Public Service Superannuation Plan is the host plan for all other employees of the federal government and certain other entities (primarily Crown corporations) and operates under the umbrella of Treasury Board. Costs are allocated to each department, except for interest, which is charged to interest on the public debt and thus comes under the Department of Finance.

8.66 Neither National Defence nor the RCMP Part IIIs provide details on the costs of their pension plans (excluding the interest component), even though they account for approximately 6 and 10 percent, respectively, of each department's budget. Public Service Superannuation Plan information is even more dispersed. Because pension costs, other than interest, are allocated to departments, there is no disclosure of aggregate pension costs for the plan in Estimates documents, although (excluding interest) they exceed $1 billion annually. As a minimum, we would expect

Part IIIs to contain narrative details of each pension plan, disclosure of plan costs, and (with appropriate cross-reference to the Part IIIs of Finance) the liabilities that have accumulated to the end of the period. Nowhere is this information provided.

There is no disclosure of aggregate pension costs in Estimates documentation, even though they exceed $1 billion annually, excluding interest.

8.67 The situation is more confusing in the case of the interest expense relating to pension accounts, which is charged to the Department of Finance as part of total public debt charges. Finance's Part IIIs do not describe the financing structure of the pension accounts or the long-term nature of this type of financing vehicle. The Department currently provides details of interest costs on external borrowings, by types, for a period of years. This disclosure should be extended to internal borrowings from pension accounts, with appropriate cross-referencing to the Part IIIs of Treasury Board Secretariat, Defence and the RCMP.

***Department of Finance's response**: The Public Accounts, Part II, Volume II, already provides a breakdown of public debt charges incurred on behalf of the pension accounts. Nevertheless, the Department will examine the merits of providing the suggested further disclosure in the Part IIIs.*

Inadequate information limits parliamentary scrutiny of borrowings from pension accounts

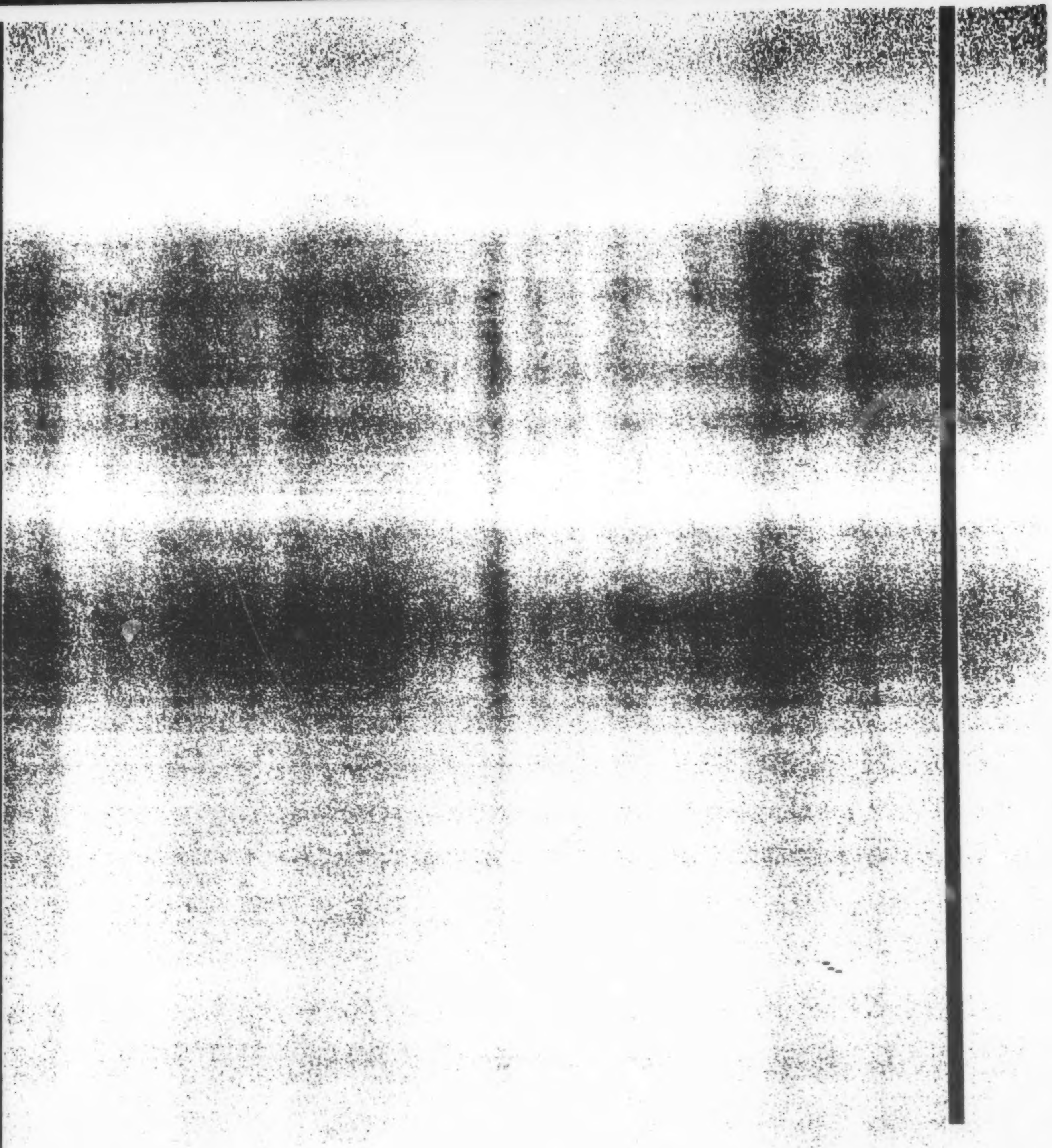
8.68 The accumulation of debt owing to pension accounts is now increasing by over $6 billion annually. The amounts borrowed by the government from the employee pension accounts during the year are not included in the Borrowing Authority Act. We are concerned that, because of the inadequacy of information on pensions, Parliament is not in a position to scrutinize borrowings from federal employee pension accounts to finance the budgetary deficit in the same manner as external borrowings, and that fiscal accountability is therefore diminished.

8.69 The government should clearly present pension obligations as public debt in the Public Accounts. Adequate information should be provided in the Estimates to enable Parliament to review program details, including the present value of long-term obligations arising from government employee pension plans.

***Office of the Comptroller General's response**: Parliament has been provided with adequate financial information on employee pensions. However, the presentation of the information may not have provided a clear link with borrowing activities of the government. We will take under consideration this recommendation when we review the presentation of the summary financial statements and related note disclosure.*

With regards to the Public Accounts, we can see the usefulness of presenting the pension obligations under the specified purpose accounts classification as is current practice but we also recognize these obligations are part of public debt. In future, we will consider this recommendation when we review the presentation of the summary financial statements and related note disclosure.

Over the last several years, the Office of the Auditor General has placed increasing emphasis on the Part III of the Estimates as a key accountability instrument to Parliament. However, it must be noted that Part III is a departmental expenditure plan which provides an understanding of program mandate, objectives, activities, resources used and required in relation to results achieved and expected. In that context, the focus is on annual appropriations for purposes of program delivery, not principally on public debt, cost of government infrastructure or the efficacy of government financing mechanisms.



Chapter 9

Financial Management and Control of Non-tax Revenue

Financial Management and Control of Non-tax Revenue

Main Points

9.1 The results of this review are encouraging. They indicate that steps are being taken by central agencies and departments to improve the financial management and control of non-tax revenue. Effective use of incentives, better information and improved control are needed as the government seeks to increase non-tax revenue, and changes to Parliamentary authorities and administrative policy are made (paragraphs 9.21 to 9.23).

9.2 The role of central agencies is changing; they are placing increased emphasis on the management of non-tax revenue by departments (9.23 to 9.29). The extent to which the Treasury Board Secretariat and the Office of the Comptroller General are to monitor non-tax revenue activity and results needs to be clarified and communicated to departments (9.30 to 9.33). They have completed some important tasks and are pursuing others (9.34 to 9.40).

9.3 A more businesslike approach is being sought (9.41 to 9.48). Increased departmental attention is required to ensure that potential sources of non-tax revenue are identified, planned for, and implemented (9.49 to 9.52). Millions of dollars of revenue are likely not being realized (9.53 to 9.56).

9.4 Before the new user fee policy can be successfully implemented, strategies that consider the costs and benefits to all parties will have to be determined and fees set accordingly (9.57 to 9.63).

9.5 Improved disclosure of non-tax revenue activity and performance is required to serve Parliament better (9.64 to 9.73).

9.6 Return on investments is usually received and recorded on a timely basis (9.74). Various deficiencies exist in collecting, controlling and accounting for other non-tax revenue (9.75 to 9.78). Other means of collection should be considered, such as consolidating the handling of accounts in one agency, contracting out to collection agencies and offsetting payments against moneys owed the Crown (9.79).

Table of Contents

Paragraph

Introduction 9.7

Scope and Approach 9.12
Criteria 9.18

Government-wide Observations

Increasing Attention to Non-tax Revenue by the Government 9.22
A Changing Role for Central Agencies 9.24
- The extent to which central agencies are expected to monitor non-tax revenue needs to be clarified and communicated to departments (9.30)
- Central agencies have completed some important tasks and are pursuing others (9.34)
- A more businesslike approach is being sought (9.41)

Increased Departmental Attention to Non-tax Revenue Management Required 9.49
- Planning and control need to be improved (9.51)
- Implementation of the user fee policy faces many challenges (9.57)
- Improved disclosure is needed to serve Parliament better (9.64)
- There are deficiencies in collecting non-tax revenue, other than return on investments (9.74)
- Alternative means of collection need to be considered (9.79)

Specific Observations in Departments

Introduction 9.80
Agriculture 9.81
Energy, Mines and Resources 9.89
External Affairs and International Trade 9.96
Finance 9.99
Fisheries and Oceans 9.102
Indian Affairs and Northern Development 9.105
National Health and Welfare 9.107
Public Works 9.114
Secretary of State/Multiculturalism and Citizenship 9.119

Exhibits

9.1 Trend in Reported Non-tax Revenue by Type
9.2 External Non-tax Revenue by Departments Included in this Audit

Financial Management and Control of Non-tax Revenue

Introduction

9.7 In the notes to the financial statements of the Government of Canada, revenue is defined as all tax and non-tax amounts which affect the annual deficit or surplus of the government.

9.8 Behind the accounting definition are diversified activities and programs. These include such different operations as: docking for boats; operations of the Bank of Canada; issuance of a fishing licence; sale of maps and charts; disposal of lands and surplus assets; recovery of moneys spent in prior years; and cost recovery in providing health services and in conducting food inspection.

9.9 The 1990 Public Accounts report non-tax revenue at $11 billion, including $2 billion of receipts credited to appropriations (net voted) and $1 billion from the operations of consolidated Crown corporations. This revenue arises from operations conducted with parties external to the "entity of the Government of Canada" as defined in the Public Accounts. "Net voting" is an alternative means of funding selected programs or activities. Parliament authorizes a department to apply revenue received to the cost incurred and then votes the net financial requirements (estimated expenditures minus estimated revenue to be received).

9.10 The largest component of reported non-tax revenue is called "return on investments" ($6 billion in 1989-90). Included in that figure are transfers from the Bank of Canada ($2.2 billion) and the net profit on foreign exchange operations ($1.6 billion). Other reported non-tax revenue for 1989-90 includes:

- services and fees of $1.4 billion (mostly airport services);
- privileges, licences and permits of $587 million (fees for passports, for example);
- refunds of previous years' expenditures of $551 million, which include recovery of contributions;
- proceeds from sales of $423 million (sale of surplus assets, publications, maps and charts);
- sale of coins for $355 million;
- miscellaneous revenue of about $2 billion.

9.11 Exhibit 9.1 shows the trend in external non-tax revenue for the past five years. It has been gradually increasing. The 1990 figures include, for the first time, sales revenue ($988 million) of consolidated Crown corporations; prominent are the revenue figures of VIA Rail Canada Inc., Canadian Broadcasting Corporation and Atomic Energy of Canada Limited.

Scope and Approach

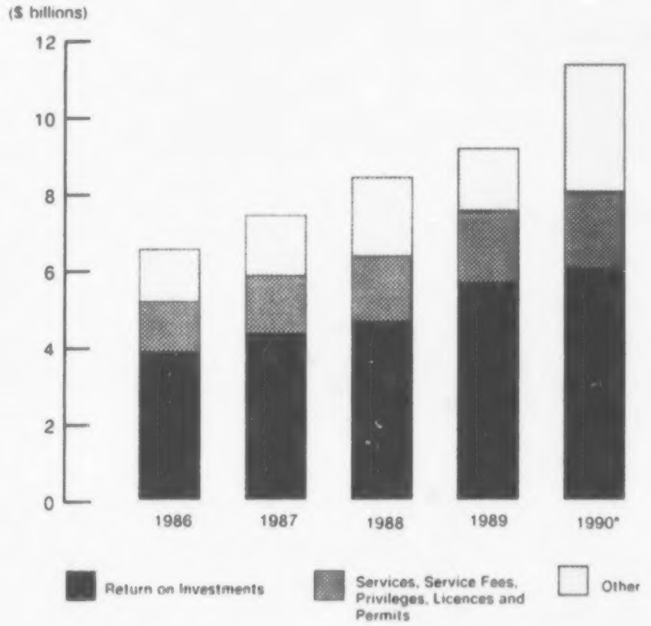
9.12 The overall objective of our audit was to determine how well departments are able to identify and recover, in a timely fashion, amounts that are due or available to the Crown from the many sources comprising non-tax revenue.

9.13 We defined non-tax revenue, for the purposes of this work, as sums paid or payable to the Crown, exclusive of tax revenue, arising from government's transacting with external parties.

9.14 We reviewed revenue planning and control, cost recovery and costing practices, collection practices and information to Parliament as they related in particular to return

Exhibit 9.1

TREND IN REPORTED NON-TAX REVENUE BY TYPE



* Including consolidated Crown corporation revenue of $988 million reported for the first time

Data Source: Public Accounts of Canada

on investments, user fees, recovery of prior years' expenditures and disposal of properties.

9.15 The entities examined were Treasury Board Secretariat, the Office of the Comptroller General and nine departments. The extent and focus of examination varied according to recent audit observations, the relative importance of the issue in the department and the nature of the revenue.

9.16 Since our focus was on the management of non-tax revenue in departments, we did not review the systems and practices in Crown corporations and other related government operations, such as the Bank of Canada and the Exchange Fund Account. However, we did consider the way revenue from these sources was classified and reported. We did not review the overall management of investments and loans which includes the financing, buying and selling of Crown corporations.

9.17 We did not examine fees or other charges levied by departments (for example, Public Works, Supply and Services, Communications) for the provision of services to other federal departments and agencies (about $3.5 billion for 1989-90).

Criteria

9.18 Examination criteria were developed after reviewing various sources of written material, such as the Guide on Financial Administration and Treasury Board directives, as well as consultation with officials from the public and private sectors. The following were discussed and agreed to by central agencies as reasonable management practices:

- There should be clear policy and related directives and guidelines for the planning and control of non-tax revenue. Management should periodically review operations to determine if there are opportunities to increase this revenue. This review should be part of departments' strategic planning and budgeting.
- Means should exist to identify the extent and costs of services, rights and privileges, goods and other property provided to users outside the federal government, and to implement appropriate user charges.
- Means should exist to manage and control non-tax revenue with due regard to economy and efficiency.
- Information to Parliament on non-tax revenue activities and performance should be clear, concise and complete and should include information that would allow non-tax revenue to be compared with the cost of generating it and the costs of the goods and services that produce it.
- There should be systems and procedures in place to ensure the prompt collection of amounts due to the Crown and to minimize losses.

9.19 The following issues and problems relating to non-tax revenue were reported in our 1989 and 1990 Reports:

- lack of pricing policy and sufficient, timely cost information;
- instances of foregone revenue or opportunities to increase revenue in the millions of dollars;
- lack of sufficient information to manage loans receivable under the Student Loans Program, and limited recovery effort;
- problems in the management of repayable contributions, resulting in lack of assurance that amounts are repaid when due;
- delays in reaching an agreement on the implementation of the proceeds of crime legislation, resulting in financial losses; and
- inadequate control over certain advances.

9.20 Generally, departments have responded positively to observations brought to their attention. Unfortunately, similar deficiencies are reported this year.

While problems exist, our findings are encouraging.

9.21 Our extended review on a government-wide basis found that central agencies and departments are taking steps to improve financial management and control of non-tax revenue. However, effective use of incentives, better information and improved control are needed to achieve comprehensive financial management, particularly in view of the significant changes taking place in authorities and policy.

Government-wide Observations

Increasing Attention to Non-tax Revenue by the Government

9.22 The government is paying increasing attention to non-tax revenue as a source of funds to help reduce deficits. The area of particular attention has been user fees, where some increases have been introduced and others are planned. Specific fee increases recently announced include: increased rates for processing immigration applications, increased fees for entry to national parks, and the intention to fully recover the costs of supervising private sector pension plans by the Office of the Superintendent of Financial Institutions.

9.23 Central agencies of the Treasury Board have taken steps to modify legislative authorities and to promote policies that draw attention to non-tax revenue and influence the way it is managed. Prominent are amendments to the Financial Administration Act effective May 1991, issuance in September 1990 of a policy on external user fee charges (preparation began in 1985), introduction in December 1989 of Special Operating Agencies, issuance in February 1989 of a Guide to the Costing of Outputs, and a policy dated April 1990 that requires all future contributions to business to be repaid unless specifically exempted.

A Changing Role for Central Agencies

9.24 The Treasury Board Secretariat and the Office of the Comptroller General are reshaping their roles and relationships with the departments and other agencies. Blueprints for change have been provided in the Increased Ministerial Authority and Accountability (IMAA) initiative and by Public Service 2000.

9.25 Central agencies are shifting from an emphasis on examination of transactions to policy leadership and provision of advice to departments on the application of policy principles. New mission statements are to be written that will guide the action of central agencies, and analysis is to be developed to identify areas of risk.

9.26 In this situation, it is difficult to establish responsibility, particularly since management of non-tax revenue is not vested in one place. Many organizational units perform various tasks, and responsibility is shared within and among entities. This requires a high level of communication and co-ordination to ensure control and to avoid fragmentation and undesirable results.

9.27 Policy responsibility for non-tax revenue rests with more than one entity, depending on the type of revenue. For example, the Department of Finance is responsible for any policy regarding return on investments, while the Treasury Board Secretariat has overall responsibility for the new user fee policy. Policy guidance for other non-tax revenue is scattered among numerous authorities, directives and guidelines.

9.28 We were informed that implementation of policies differs from one department to the next. The degree of consistency or difference is dependent, in part, on the work of program analysts in the Treasury Board Secretariat who are assigned individual ministries and on the functional specialists in the Office of the Comptroller General.

9.29 Departments are to follow the process outlined in the user fee policy and to be prepared to justify their decisions. The Treasury Board Secretariat reviews information in departments' multi-year operating plans, and aggregates information for the annual Estimates and budget. We were informed that the Treasury Board Secretariat may increase the budget reference levels of a department where it undertakes to increase revenue, or to reduce budget levels if it does not meet revenue targets. This would influence the amount of attention by departments to non-tax revenue. However, data on the frequency and extent of budget adjustments are not readily available to gauge the overall impact of the practice on present and future program costs and budgets.

The extent to which central agencies are expected to monitor non-tax revenue needs to be clarified and communicated to departments

9.30 Giving departments increased authority and flexibility can be progressive. However, this raises the question of what central agencies are to do if results of change are unsatisfactory. How will they recognize performance and how can they minimize the risk of abuse, mismanagement, and erosion of revenue potential? While several initiatives have been taken to provide guidance, the chain of control over non-tax revenue is weakened since the extent, purpose and methods of monitoring by central agencies need to be clarified and clearly communicated to departments.

The extent and methods of monitoring by central agencies need to be clearly communicated to departments.

9.31 A counter-balancing function would mean knowing, on a timely basis, what is being achieved so that problems can be solved, including the modification of central policy and authorities as appropriate and causing departments to take corrective action as necessary. Clarification of central agencies' mission and new accountability relationships are essential in this regard.

9.32 Central agencies do not routinely measure and assess revenue performance as a distinct process. It is not clear whether they are expected to monitor in this way. Anticipated revenue may be compared with actual as part of the IMAA process. However, many departments have not signed an agreement as required by the process. Full accountability reporting for a few departments begins in June 1991.

9.33 It may not be feasible to gauge revenue performance, even with the submission of IMAA reports, until experience is gained. Revenue plans will have to become consistent and refined, and the accounting systems will have to generate data that can be compared with budgets on each type of non-tax revenue as well as at an aggregate level. Moreover, feedback to management and central agencies through internal audit and program evaluations, which has been limited, should increase when studies are done in support of a user fee policy review scheduled for 1993.

Central agencies have completed some important tasks and are pursuing others

9.34 With the desire to increase non-tax revenue, central agencies have completed important tasks on a number of fronts. These include the new user fee policy and other related forms of guidance. It has taken several years to produce these results.

9.35 The Office of the Comptroller General has made cash management a priority for some time. Several years ago it increased attention to the collection of accounts receivable. This caused departments to clean up their accounts and to collect them faster.

9.36 The Comptroller General's Office no longer monitors receivables and revenue in this way. The last available data for 1987-88 indicate that, although accounts were outstanding for as few as 20 days in some departments, in others they averaged as long as 235 days. This suggests that some further gains may still be possible.

9.37 In May 1990, the Office of the Comptroller General completed a review of the government's loan and receivable portfolio. Initial findings pointed to these problems:

- lack of clearly defined collection strategies and tools to recover amounts owed;
- lack of checking before extending credit;
- lack of specific terms and conditions for managing repayable contributions;
- inability to access information quickly, or to update account information, and difficulty in monitoring delinquent accounts; and
- a concern that existing management practices did not adequately focus on risk assessment or early warning systems to detect problems.

9.38 Further steps to improve the management of receivables and credit were proposed as a joint Treasury Board Secretariat and Office of the Comptroller General study in the fall of 1990. This phase had not started by the time we completed our review.

9.39 Another task of the Comptroller General's Office was to initiate internal audits and program evaluations in departments as part of the 1993 user fee policy review. We found this had been started, although at the time of our review that Office did not have progress reports and some audits and evaluations had been deferred or delayed. Renewed attention is planned between then and March 1993.

9.40 Finally, the Office of the Comptroller General issued a costing guide in 1989 and more recently has given courses on the costing and implementation of user fees. These have been well accepted by departments.

A more businesslike approach is being sought

9.41 In December 1989 the government announced an initiative to increase government non-tax revenue by $390 million over three years, through higher fees for certain services. Another initiative was to sell surplus Crown assets with the incentive that departments would share in the revenue. The intention to develop a more businesslike approach is indicated in several recent administrative initiatives. These are described in the following paragraphs.

9.42 Treasury Board approved a user fee policy in December 1989 (issued in September 1990). The intent of the new policy is to promote equity in financing of activities that provide specific benefits to external users and to improve the allocation and management of government resources. This involves ensuring, to the maximum extent practicable, that the cost of providing specific benefits to users is borne by such users.

9.43 In 1990 a new organizational form, a Special Operating Agency, was introduced. A Special Operating Agency is a service unit that is given direct responsibility for results and increased management flexibility where necessary to reach new levels of performance. The policy rationale is to encourage a more businesslike approach where entities are to compete in the marketplace and be financially self sustaining. Since Special Operating Agencies are new, and at present deal mainly with revenue internal to government, we did not include them in the scope of this audit. However, we recognize that they represent a challenge of structural and cultural change. Their accountability and specific operating policies are being developed.

Organizations that find new ways to generate revenue will be able to retain part or all of the funds.

9.44 The White Paper issued in late 1990 on the reform of the Public Service (PS 2000) included proposals to use non-tax revenue as an incentive to departments to finance and improve services to program clients. Organizations that find new ways to generate revenue will be able to retain part or all of the funds, and managers will be encouraged to dispose of or transfer surplus government assets.

9.45 Amendments to the Financial Administration Act, passed by Parliament in May 1991, now provide explicit authority for departments to spend revenue that they receive in a fiscal year, if authorized by an appropriation Act of Parliament. Departmental corporations have also been granted standing authority to spend revenue received during the year. These amendments should encourage increased revenue generation. However, guidance is needed in the use of these authorities. A policy is to be prepared on net voting and revolving funds to establish a decision and control framework to guide departmental use of such authorities that lead to revenue spending directly by departments.

9.46 Financial Administration Act revisions also recognize that fees for rights and privileges may be levied in amounts that yield revenue greater than the cost to provide them. In these cases, rates may reflect a measure of the value of the right or privilege given (for example, through a licence or a patent). In these circumstances, departments must pay particular attention to the acceptance of fees by users and the relationship between fees and the level of service provided. Where the value to the user exceeds cost, specific legislative authority is required.

9.47 The need for care in determining fair and equitable fees and securing authority for them has been demonstrated in debates in Parliament on the Financial Administration Act amendments. Varying views have been expressed on both the fundamental principles of revenue generation and the anticipated economic results of user fees. One view is that nearly all government services should be funded through general tax revenue. Another is that user fees are a way of achieving equitable, efficient and responsive programs. Concern has also been expressed that Parliament would not have sufficient opportunity to debate future fee increases.

9.48 Allowing entities to use non-tax revenue to finance their operations is a powerful incentive. However, a note of caution is in order since Parliament relinquishes a certain amount of control when programs are not financed exclusively by appropriations. Considering also that funds other than those coming out of the consolidated revenue fund will increasingly be used to finance expenditures, our concern is accounting and full disclosure to Parliament. This has not always been the case, as reported in paragraphs 9.64 to 9.73.

Increased Departmental Attention to Non-tax Revenue Management is Required

9.49 The task at hand is essentially one of giving departments the impetus to control, collect and maximize revenue where appropriate as well as to minimize costs of product delivery. This is emerging slowly, along with the need to change attitudes and systems to meet higher revenue expectations. There are several potential barriers to enhanced revenue management and performance:

- a much higher priority given to program expenditure than to revenue generation;
- lack of incentive to overcome constraints and frustrations and to maximize revenue, particularly when time and money must be spent to collect such revenue without budgetary compensation; and
- little recognition or other reward for pursuing new or innovative revenue generating ideas, and few sanctions against neglecting revenue.

The task at hand is essentially to give departments the impetus to control, collect and maximize revenue where appropriate.

9.50 There is the problem that revenue enhancement has to compete for time and attention with day-to-day demands and other priorities. We believe that, especially in a period of budget cutbacks, efficient and effective revenue management should be an important part of public service. We note that established systems of rewards and sanctions for revenue performance are yet to be fully utilized. Incentives involving the retention and spending of revenues should be part of, but not a substitute for, good revenue management.

Planning and control need to be improved

9.51 Departmental operations are decentralized to varying degrees, as are revenue activities. Revenue planning and control are often carried out at branch, division, regional and local levels. It is therefore necessary to have clear responsibilities, effective communication and co-ordination, timely information, and a capacity for corrective measures where results are not satisfactory. It is in this regard that improvements can be made.

9.52 Financial staff or similar groups usually issue the required procedures, including the forms and instructions for submitting revenue plans. They may consolidate the data from the plans of operational units, but generally do not review, critically challenge or analyze non-tax revenue plans and results. The opportunity is available to enhance this role by participating, in partnership with program management, in other important aspects of revenue management such as:

- basing strategy and policy advice on both program knowledge and financial information;
- identifying opportunities for increased revenue and challenging expectations and assumptions;
- participating in reviews of costs of services and in the development of related fee schedules;
- monitoring and evaluating revenue performance in terms of costs, program impacts and results;
- resolving anomalies, inconsistencies or conflicts with program goals; and
- showing where improved revenue and program delivery can be achieved, including cases where lack of cost recovery or inability to achieve revenue targets indicates a poor service delivery or lack of demand for it.

It is not possible to place a value on the revenue potential yet to be realized; however it could well be in the millions of dollars.

9.53 We believe there are revenue sources which have not yet been fully considered and that, as time passes, the opportunity to realize non-tax revenue diminishes. Departments are starting to address this, but it is a slow and sometimes difficult process. It is not possible to place a value on the revenue potential yet to be realized; however it could well be in the millions of dollars. The longer it takes for information to be gathered and decisions to be taken, the greater the risk of missed potential revenue.

9.54 We identified cases similar to those reported in past audits. Collectively, these illustrate that there is a cost to slow revenue planning and implementation. In paragraph 9.108 we note that a delay in cost recovery for pre-market evaluation of drugs has cost roughly $90 million since 1989; and in paragraph 9.111 we note $8 million of costs unrecovered for dosimetry services since 1984.

9.55 Departments generally have yet to formulate and test strategies and policies for revenue generation. This can be a difficult and lengthy process. Reconciling costs to be recovered with the value of benefits given to the general public and to specific users is a particularly sensitive issue, as was illustrated in the debates in Parliament.

9.56 The recently introduced User Fee Revenue Plans are departments' main annual planning documents specifically for certain types of non-tax revenue. For other sources of revenue, such as return on investments, sale of assets, and recovery of repayable contributions, strategies and specific plans are not necessarily being prepared. These areas are sometimes more difficult for departments to forecast.

Implementation of the user fee policy faces many challenges

Determining the "appropriate" share of costs for users to pay is not a simple matter.

9.57 Determining the "appropriate" share of costs for users to pay is not a simple matter. Determining costs is one key part of it; others include taking into account demand, acceptance, and the value of the service rendered. Reconciliation of these factors and consultation among various parties are required. It is also necessary to resolve many technical matters such as authorities and cost allocation. Departments find it difficult to determine the "appropriate fees" in a systematic and comprehensive way, since they often do not have policies and information on all the factors involved.

9.58 Cost data are often inconsistent or incomplete. Cost components of a given service are subject to many interpretations, even among operational units of the same department. Often the cost information used does not take into account indirect costs, such as departmental administration and common service costs.

9.59 The new user fee policy indicates that full costs for the provision of facilities and services to external users should be known and recovered unless there are valid reasons to do otherwise. Compromising the objective of the program or other government goals, or an unacceptably adverse impact on the financial position of users, are two such reasons. The policy also indicates that a fee can exceed costs, such as in the case of issuance of limited rights and privileges, but reminds departments to have the necessary authority. However, departments do not always have a cost recovery policy and related procedures to help determine where program objectives could be enhanced or might be impaired, or to determine where costs and other measures would be necessary to establish appropriate fees.

9.60 A guide to costing methods has been published, but its application in departments varies. While the guide is quite thorough, it alone cannot be sufficient to deal with difficult technical subjects such as the calculation of overhead costs, the cost of capital, and the use of current costs in place of historical costs. Recent courses provide the opportunity for further guidance and instruction.

9.61 Inconsistent or deficient costing information can pose a problem for both departments and central agencies in assessing whether equitable and comparable cost recovery is taking place, and whether fees based on values other than costs are reasonable and fair. The determination of user fees can be influenced by multiple and complex political, economic and social factors. Deciding whether cost recovery is warranted and then being able to demonstrate the appropriateness of revenue levels are challenges management must meet. The central agencies may be able to further assist departments by providing diagnostic services in support of revenue management decisions.

9.62 Setting financial goals as part of preparing user fee plans is a concrete step toward managing non-tax revenue. It promises increased revenue, since the Estimates for the past two years have represented to Parliament that user fees are expected to aggregate $3 billion in the fiscal years 1990-91 and 1991-92.

9.63 However, because of differing data sources and classification anomalies, this expectation cannot be readily compared with other forecasts and actuals. Consequently, progress cannot be accurately reported and accountability for results readily served at this time. Revenue management does not always provide for a comparison of targets and actuals. Setting revenue targets and providing better financial information are needed if comparison is to be done.

Improved disclosure is needed to serve Parliament better

9.64 Parliament gets little information on non-tax revenue activities and performance on which to base the effective exercise of its scrutiny role. The information it does get is dispersed and sometimes incomplete and confusing.

9.65 Public Accounts and Part III of the Estimates provide most of the public information on non-tax revenue. While considerable data are available, none presents comprehensive information on budgeted revenue that can be readily compared to actuals so that performance can be clearly demonstrated to Parliament and others.

9.66 For example, return on investments includes amounts earned with respect to loans, investments and advances (collectively called equities) with Crown-owned entities and others. These equities are considerable; in parent Crown corporations a total was reported of $18.2 billion at March 1990, net of an evaluation allowance of $4.5 billion. Other loans and advances amount to about $2.5 billion net of an allowance of $6 billion.

9.67 The nature and basic terms of loans and advances are disclosed. However, information is generally not provided to explain differences. As an illustration, the 1989-90 Public Accounts disclose certain loans totalling $74 million at varying interest rates. Our analysis indicates that about $5.7 million of interest revenue would normally be received. In comparison, however, only $1.2 million of interest was reported relating to one loan of $15.2 million. An explanation is not provided to reconcile the apparent shortfall, such as loss of interest on non-performing loans.

9.68 There are also financial reporting anomalies. What is included or not included in non-tax revenue data is important to know to understand them. A reader of the Public Accounts and Estimates may wish to make adjustments for the matters discussed in paragraphs 9.69 and 9.70. Additional information needs to be disclosed if readers are to be better informed about the substance of transfers from the Bank of Canada and interest collected and paid as part of the income tax system.

Additional information needs to be disclosed to give a more complete picture of non-tax revenue activities and performance.

9.69 "Return on investments" can be a questionable term in the context of government. Moneys described as "transfer of profit" are transferred from the Bank of Canada and are included in non-tax revenue figures of the Public Accounts as "return on investments". This is the Bank's gross revenue less operating expenses. For 1989 this amounted to $2.2 billion, being $2.4 billion of revenue less expenses of $186 million. A considerable proportion of the Bank's revenue results from holding Government of Canada securities in the process of implementing monetary policy and managing public debt and cash balances. In effect, the Bank is returning some of the public debt charges. In view of this, additional information could provide a more complete picture of the net cost of public debt. It would also have an impact on the operating surplus reported in budget documents, since this is determined by deducting total expenditures net of public debt charges from gross revenue.

9.70 On the other hand, reported non-tax revenue does not include interest collected on income taxes receivable. Interest received is reported as tax revenue and not separately disclosed. However, interest is not a tax and therefore could be considered as a non-tax revenue item. Revenue Canada informed us that in 1990 it collected about $1.1 billion more interest than it paid.

9.71 The Estimates for departments tend to provide little insight into the source, rationale, trends and performance of non-tax revenue. It has not been considered significant enough to warrant more in-depth reporting. However, guidance is not available as to what is or is not significant. Collectively, non-tax revenue sums are not insignificant, particularly if uncollected amounts or unrecovered costs are considered. The interpretation of significance might change if revenue were reported in such a way as to be linked to levels of service and program objectives, and if budgets were meaningfully compared with actual revenue received.

9.72 Some specific observations on departmental Part IIIs of the Estimates illustrate various reporting gaps:

- While revenue is forecast in the Department of Agriculture, indications of potential additional revenue, comparison of costs incurred with those recovered, and explanations of year-to-year changes in revenues are not provided.
- There is no information on the cost to the Department of Energy, Mines and Resources of rendering services, the extent of cost recovery or the rationale where recovery is less than 100 percent of cost.

- The Department of External Affairs provides minimum information on the performance of non-tax revenue, and variances in revenue are unexplained. There is no mention of whether revenue targets have been met and no indication of a plan or policy for cost recovery.

- The Department of Finance provides information only on internal cost recovery of $5.3 million and on a revenue forecast of $120 million from domestic coinage. Its information for 1991-92 does not include budget data or information on the components of return on investments, by far the major revenue item ($4.3 billion in 1989-90).

9.73 Finally, we found activities that were not well disclosed or accounted for to Parliament:

- Chapter 5 includes observations on certain transactions of the Department of Fisheries and Oceans where millions of dollars in fish or fishing rights have been bartered in exchange for the use of fishing vessels to gather program information. The context and significance of this are reported further in Chapter 5.

- To encourage departments to dispose of surplus assets as part of life-cycle asset management, interim administrative mechanisms have recently been introduced which enable them to purchase certain goods and services from the proceeds of the sale of surplus assets, reducing the charge otherwise made to moneys appropriated to departments by Parliament. There is confusion in the use of this mechanism, and the practice may achieve the same result as net voting. Provisions to establish an explicit authority in legislation are being sought through Bill C-26 as presented to Parliament in June 1991. Proposed amendments to the Surplus Crown Assets Act would allow a department to make payment for its purposes, subject to terms and conditions of the Treasury Board, out of the Consolidated Revenue Fund equal to the net proceeds of sale of surplus assets. If the Bill is passed into law, a statutory expenditure will replace the need for such administrative mechanisms while still achieving similar results.

- Parliament does not receive information on the financial effects of exchanging property for other property or services.

There are deficiencies in collecting non-tax revenue, other than return on investments

9.74 While amounts are large, the risk of collection loss is not high for return on investments since it deals mainly with interest at prescribed rates on loans between the government and Crown-owned entities and other levels of government.

9.75 For other non-tax revenue collection, a range of problems similar to those reported in the past were found in the departments examined in this review (see paragraphs 9.81 to 9.122). Additional findings are also reported in other chapters of this year's report. In Chapter 2, Audit Notes, we note that earlier assessment and billing of financial institutions by the Office of the Superintendent of Financial Institutions could save at least $1 million annually in interest costs.

9.76 Greater attention to accurate records and collection processes is needed, especially since accounts receivable are now formally booked at year end, and information about the age of receivables is to be included in the 1991 Public Accounts.

9.77 Some departments are beginning to contract out the collection of amounts due the Crown. This involves some implementation problems such as a restricted ability to take legal action, and the payment of agent fees. Standards, criteria and information needed to monitor and assess the efficiency and effectiveness of revenue management are not well developed. This will become more important given the changes to the Financial Administration Act. We understand that collection fees will be paid as a statutory expenditure (rather than charged to operating budgets of departments) when Treasury Board policy is issued, to ensure the cost-effective use of private collection agents.

9.78 Another difficulty encountered by departments is when and how to recognize receivables in differing circumstances, such as repayments arising from contribution agreements. Technical guidance available to handle such situations is insufficient, given the governmental context. Difficulty in determining when repayment terms and conditions have been met in contribution arrangements is a systemic problem.

Alternative means of collection need to be considered

There may be merit in seeking alternative means of collection.

9.79 There may be merit in seeking alternative means of collection. These may include contracting out, introduction of a central collecting agency or unit, and offsetting payments against moneys owed to the Crown. These may help with difficult collections, relieve work pressures in departments, and provide an opportunity to realize savings through the use of advanced technology to transmit information and to expedite payments and collections. The government has recently indicated that changes will be introduced to permit the recovery from tax refunds of debts owing to the government. This kind of offset will need appropriate authority and careful handling. In particular, well developed policies and practices will be needed for ensuring prior confirmation and due notification. The United States has succeeded in collecting millions of dollars worth of overdue amounts in the way of offsets.

Specific Observations in Departments

Introduction

9.80 In this section, highlights of specific observations in the selected departments are presented. The areas looked at in each department were determined on the basis of previous audit work, the type of revenue involved, and the circumstances of each department. The non-tax revenue reported for these entities is shown in Exhibit 9.2.

Agriculture

9.81 **Background.** The Department is engaged in a variety of non-tax revenue activities totalling $539 million in 1989-90. Of this amount, $399 million or 74 percent of such reported revenue relates to interest on loans to certain Crown corporations.

9.82 We focussed on the Food Production and Inspection and Research Branches, which are most involved in cost recovery, and on the Corporate Management Branch, which shares the responsibilities for financial management and control of non-tax revenue. We reviewed the annual reports of the Canadian Grain Commission and note that the Commission has achieved its objective of full cost recovery to a significant degree.

9.83 The Department does not have a comprehensive department-wide system for management of non-tax revenue. Each operational area has established its own practices in this regard and the level of attention given to revenue activities varies among branches and regions. Responsibility for co-ordination is unclear and there is little monitoring of the revenue activities of the operating branches. While branch and regional systems do exist to identify, obtain and record non-tax revenue in the two branches included in our audit, improvement is needed in some managerial aspects.

9.84 **Continuing development of cost recovery.** Inspection and regulation activities consumed approximately $268 million in 1989-90, and the Food Production and Inspection Branch reported about $13 million in cost recovery revenue for the same period.

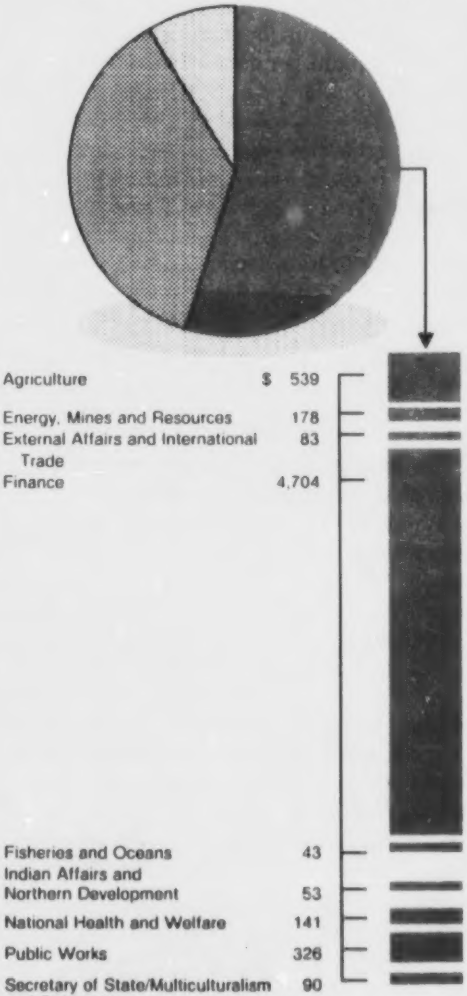
9.85 The Branch has reviewed revenue generation in collaboration with the food

Exhibit 9.2

EXTERNAL NON-TAX REVENUE BY DEPARTMENTS INCLUDED IN THIS AUDIT

($ millions)

■	Departments in this audit	$ 6,157
▨	Other departments and miscellaneous adjustments	4,122
☐	Consolidated Crown corporations	988
	TOTAL	**$ 11,267**



Agriculture	$ 539
Energy, Mines and Resources	178
External Affairs and International Trade	83
Finance	4,704
Fisheries and Oceans	43
Indian Affairs and Northern Development	53
National Health and Welfare	141
Public Works	326
Secretary of State/Multiculturalism and Citizenship	90
TOTAL	**$6,157**

Data Source: 1990 Public Accounts of Canada

industries. A complete user fee plan is being developed for approval by the Treasury Board. However, costs have not been established for many of the individual inspection activities. For those where costs are known, the rate of recovery varies considerably.

9.86 In the Research Branch, cost recovery has not been a major item of business, and the extent of potential revenue generation is as yet uncertain.

9.87 **Lack of cost information.** For most activities, cost information is not captured; nor is there a consistent interpretation of what constitutes the cost of a given activity. Therefore, the amount of unrecovered cost cannot be readily estimated or a relationship drawn between fees and the cost to deliver the service for purposes of making revenue decisions.

9.88 We also noted:

- The corporate financial function does not comprehensively challenge revenue plans and performance for the Department as a whole, thereby minimizing its input to revenue realization.
- At the request of the Research Branch, a recent internal audit of collaborative research arrangements was carried out. It reported a lack of reasonable assurance that interest in intellectual property and the revenue potential of patents are safeguarded.
- In most cases, authority to recover costs is contained in statutes administered by the Department. In a number of instances, however, authority is not cited or an authority is used which does not relate to the fee revenue activity undertaken.
- The Department identified $11 million in overpayments in the Special Canadian Grains Programs and the Canadian Crop Drought Assistance Program. It has recovered $7.6 million over several years, with $3.4 million still outstanding. A lack of timely notification and reminders hindered the recovery process.

Department's response: *Generally, the Department agrees with the findings and ongoing cost recovery initiatives will take them into consideration.*

Energy, Mines and Resources

9.89 In the Department of Energy, Mines and Resources, relatively few transactions (return on investments and lease income, totalling about $95 million in 1989-90) account for the bulk of non-tax revenue, while large volumes of transactions are involved in proceeds from sales and service fees ($14 million from external parties). We relied extensively on the work of internal audit, since it had recently completed an assessment of the implementation of the governmental cost recovery policy, as well as of the accounting for and control of revenue and accounts receivable. Its work, augmented by ours, indicates that various problems exist but that the Department is attempting to address them.

9.90 **Need for policy guidance.** The Department does not have a comprehensive policy on cost recovery. As a result, there is no overall thrust or direction to ensure that efforts are co-ordinated and consistent or to identify where non-tax revenue from cost recovery activities may be appropriately increased or decreased.

9.91 **Inconsistent cost recovery objectives.** An earlier attempt, in 1989, to develop and establish a comprehensive policy on cost recovery was not successful. As a result, each sector of the Department conducts its own cost recovery based on its interpretation of what constitutes the cost of a given service or product and how much of that cost should be recovered. However, other Department of Energy, Mines and Resources officials external to the concerned sector, such as the corporate financial function, do not undertake substantive reviews or challenge these sectoral plans and related user fee revenue plans.

9.92 The Department is currently developing a comprehensive cost recovery policy and related procedures and is reviewing accountability relationships between the finance and operational sectors. It has also identified other potential sources of revenue.

9.93 **Lack of costing of a service or product.** The full departmental cost of most products or services is not known, and there is no common definition of direct costs, thus leaving room for different interpretations in each sector. Further, the relevant departmental overhead costs and generally the indirect costs incurred by the sector are not identified.

9.94 Therefore, the selling price cannot be compared to the cost and is generally determined more with regard to a perceived market value. As a result, there are limitations to any assessments of program or product demand and knowledge of where cost recovery could be increased or operational efficiency improved.

9.95 **Collection needs to be improved.** Collection of interest on loans (return on investments) is generally satisfactory. At the same time, management is currently implementing corrective measures to improve the timeliness of invoicing and deposits, the monitoring of late accounts and other collection inefficiencies in the sale of goods and services. Also, the Department plans to develop and implement a policy on charging interest on overdue accounts.

Department's response: *Agreed. Energy, Mines and Resources has initiated the development of comprehensive Cost Recovery and Revenue Management policy guidelines and decision criteria. This will include a complete assessment of all current and projected cost recovery and revenue generating activities taking into account potential impacts on scientific programs and activities.*

External Affairs and International Trade

9.96 The Department reported non-tax revenue from external sources of $83 million in 1989-90. We did not review passport services ($30 million) since it recently became a Special

Operating Agency, or visa cost recovery ($7 million and expected to increase to $44 million in 1991-92) since it was reviewed in our 1990 report. We found that in the Department generally, attention to non-tax revenue must compete with many other demands on financial administration. It is not given appropriate attention, which may account for the findings that follow.

9.97 **Low level of collection monitoring and co-ordination.** There is little monitoring and co-ordination of the collection of rent and related expenses from employees posted abroad (about $16 million in "shelter shares"). A foreign mission does not know whether shelter shares have been paid by deductions in Ottawa from the foreign service allowances, and headquarters does not know whether shelter shares have been collected at the mission. There is no periodic central list providing management with information on unpaid shelter shares. Consequently, inconsistencies have been noted, including instances of late paying by six months or more.

9.98 **Difficulty in sustaining collections and preventive control.** In 1986, we reported a backlog in recoveries relating to the Program for Export Market Development. Program contributions are designed to assist Canadian companies in export markets. When they are successful, the companies are to report and make repayments. To resolve the backlog, a one-time "collection blitz" was undertaken and collections increased. Four years later, the number of annual reports outstanding from companies was increasing. At March 1990 there were approximately 4,600 companies that had not met reporting requirements on $42.8 million of contributions. So another "collection blitz" was started. This suggests a difficulty in sustaining collections. We did not determine all causes, but these include poor central follow-up notification and headquarters' failure to request exception reports to identify companies receiving new contributions while having failed to meet the reporting requirements for previous contributions.

***Department's response**: Stemming from observations contained in internal audit reports, remedial action was undertaken in the collection of shelter shares, starting with a request to all missions, dated 30 November 1990, to do a complete review of collections from the beginning of the fiscal year. That has been followed up by a review at headquarters in which all of the rates being applied were checked for accuracy. All errors and oversights are being corrected in terms of the records involved and retroactive collections totalling approximately $350,000 as of 20 September 1991. With the benefit of the knowledge gained in the course of this investigation, changes will now be undertaken to the systems and processes of collection to ensure that proper controls are implanted and maintained.*

In regard to recoveries relating to the Program for Export Market Development, the Department recognizes that there have been inconsistencies in the level of effort directed at collecting repayments of amounts owing. The process in place for follow-up has focussed on the Project Officers within the regional offices of Industry, Science and Technology Canada. An initiative is being undertaken by the Department to centralize the follow-up and regularize the frequency of contact with delinquent companies, which is intended to eliminate the inconsistencies cited and the need for periodic "collection blitzes".

Finance

9.99 Non-tax revenue reported by the Department of Finance aggregated $4.7 billion in 1989-90. The main class is return on investments ($4.3 billion). This includes "profits" received from the Bank of Canada ($2.2 billion); profits of the Exchange Fund Account ($1.6 billion); interest on loans to Canada Deposit Insurance Corporation ($172 million); and interest on bank deposits ($271 million). This review did not extend to the management of investment portfolios. We limited our scope to collecting and recording only. We have two observations on these.

9.100 **Collecting and recording is not a risk.** We found that recorded non-tax revenue is received in accordance with authorities. In the case of the Bank of Canada, transfer of moneys was accelerated beginning in January 1991.

9.101 **Terminology and classification anomalies.** The way in which revenue is reported may lead to misunderstanding. Use of the term "profit" to describe moneys received could be a misnomer. The Bank of Canada is not in the "profit-making" business in the commercial sense, and indeed does not use that term in its own financial statements. However, by definition the Bank is external to the accounting entity of the government and this creates an anomaly in how this return on investment is categorized and reported (see paragraph 9.69).

Department's response: *The Auditor General's observations and recommendations in respect of the Bank of Canada surpluses have merit and the Department shall include these items for consideration during the next review for changes to the accounting and reporting practices.*

Fisheries and Oceans

9.102 The Department of Fisheries and Oceans has a variety of revenue activities carried out at regional and local levels. Non-tax revenue is reported at $44 million, of which $23 million is from regulated licensing and registration fees. Revenue activity also includes: charges for charts, publications and oceanographic services; fines and forfeitures; charges for import inspection, laboratory tests and analyses; sale of fish and fish products; berthing, leasing and wharfage revenue at hundreds of small craft harbours; and interest on loans to certain Crown corporations.

9.103 The Department increased certain licence and other fees, resulting in increased collection of about $10 million beginning in 1987-88. A value-for-money audit in 1988 reported potential for additional revenue relating to inspection activities. In 1988 we also reported an instance of failing to deposit public money. Chapter 5 of this report describes additional authority and disclosure issues.

9.104 **Policy is yet to be clearly established.** The Department is in the process of developing a comprehensive strategy and policy for revenue generation. This has been a slow process. Until a strategic direction is agreed to in consultation with the industry and other affected groups, compliance with central policy, increasing of revenue, and review of costing practices and other functions are on hold.

Department's response: *The observations are fair and accurate. The area for greatest revenue potential is domestic fishing licensing; however, implementation of any new policy in this regard has been and will continue to be dependent upon economic conditions and the capacity of the industry to absorb these costs in the commercial sector. In the past two years, the industry has not been able to absorb these costs.*

Indian Affairs and Northern Development

9.105 The Department of Indian Affairs and Northern Development is decentralized, with each activity, sector or region being responsible for the operational management of non-tax revenue. In view of this, headquarters is to maintain a central financial function.

9.106 **Opportunity to improve revenue control system.** Each sector prepares an external user fee revenue plan. These are submitted to headquarters where they are incorporated into the Department's multi-year operational plan. The Department needs to take a more rigorous approach to ensure that user fees in the Northern Affairs program conform to government policy. The financial function should perform a more active challenge of non-tax revenue activities. It could also periodically review and challenge the status of non-loan receivable collections through the use of control accounts.

Department's response: *The Department of Indian and Northern Affairs concurs with these suggestions. The Department will examine its user fee practices when modernizing Northern legislation. In performing its challenge role on policy documents leading to new or revised legislation, the central finance function will ensure consistency with government policy on user fees. Regarding the review and challenge of non-loan receivable collections, the Department is currently undertaking a major overhaul of its financial system and associated processes, which will include the correction of deficiencies in our existing system for control of receivables.*

National Health and Welfare

9.107 The Department of National Health and Welfare reported $141 million of non-tax revenue for 1989-90. The administration charge to the Canada Pension Plan Account is the largest item ($57 million). Predetermined amounts received under Federal-Provincial Lottery Agreements account for $43 million. We concentrated on the remaining $41 million from penalties and forfeitures and cost recovery, and found that it does not receive sufficient attention.

9.108 Delay in implementing full cost recovery for Pre-market Evaluation of Drugs. In 1988, Treasury Board approved additional resources of $13.6 million for the Department's Pre-market Evaluation of Drugs program to help clear a backlog of drug submissions. Those resources were allocated on condition that a full cost-recovery program would be implemented by 1 January 1989. However, the Department has been unable to reach agreement on the manner in which cost recovery will take place. Following extensive consultations, a proposal is now in final form for ministerial consideration. Meanwhile, program costs of roughly $90 million have been incurred since 1 January 1989 without cost recovery.

9.109 Inconsistent efforts to increase recovery of insured medical services. Medical services provided by departmental hospitals are, in most instances, covered under provincial and territorial health insurance plans. In 1989-90 the Department recovered about $23 million out of $40 million in operating costs that include certain expenditures not normally incurred by public hospitals.

9.110 Attention to the level of cost recovery varies from place to place. For example, one regional office negotiated an increase in rates for in-patient care from $40 a day (unchanged for 13 years) to $140 for 1990-91. This should increase cost recovery by $500,000 annually. Similar action by other regions could result in additional cost recovery. Even a nominal increase (say 5 percent overall) translates to up to approximately $2 million annually.

9.111 Incomplete cost analysis and slow fee revisions. Revenue from dosimetry services totalled about $1 million in 1989-90. The current fee schedule for these services became effective 1 April 1990 (replacing the 1984 fee schedule). These fee schedules were set to recover only direct costs. We estimate that exclusion of indirect costs, plus anomalies in direct cost figures, have resulted in at least $8 million of lost revenue since 1984. The Department plans for full cost recovery in 1991-92; however, it has yet to seek Treasury Board approval for updating its current fee schedule. Delays in implementing full cost recovery for dosimetry services will result in lost revenue of about $1 million annually.

9.112 Uncertainty as to responsibility for ensuring efficient collection. Reported revenues from the enforcement of the Food and Drugs Act and the Narcotic Control Act amounted to $7 million for 1989-90. These revenues arise from fines, penalties and the sale of forfeited assets. The title to all seized drugs and forfeited assets is transferred to the Department's Bureau of Dangerous Drugs by enforcement agencies at the end of the legal process.

9.113 While the revenues are reported in the Department's accounts, various entities are involved in revenue collection and recording. Fines, penalties and forfeited moneys are deposited to the Consolidated Revenue Fund by the Royal Canadian Mounted Police, and the

Department of Supply and Services. The Department also deposits moneys if and when received and is to maintain records of all revenues collected under the Acts. However, the Department has no means of ensuring that all moneys were received and all known revenues were collected.

Public Works

9.114 The Department of Public Works has two major roles, one as a common service agent and one as the custodian of federal real property. As a common service agent, the Department provides other government departments and agencies with a wide range of professional and technical services in the engineering, architectural and realty fields. In its custodial role, it administers general purpose office accommodation and other real property.

9.115 The Department's provision of common services accounts for a significant portion of internal government revenue ($2 billion in 1989-90). This was not included in the scope of this audit. We concentrated on the $326 million received from external parties in 1989-90.

9.116 We examined revenue from external parties, such as custodial and other revenue ($75 million in 1989-90), which consists mainly of building rentals and earnings from parking lots, a central heating plant, dry docks and the New Westminster Bridge. We also looked at the collection of service revenue from third parties ($251 million in 1989-90). We relied on relevant internal audit findings.

9.117 Planning. As a common service agency, the Department of Public Works has little need for a separate process for external revenue, which is mainly a by-product of its revenue activity internal to government. In this context, the Department has an acceptable planning process for external non-tax revenue.

9.118 Collection. We examined the length of time it takes the Department to bill and collect revenue for services provided. In 1989-90, its own studies and internal audits identified an unacceptably long process. The need to correct this was confirmed by our review and the Department was in the process of implementing improvements at the time of our review.

Department's response: *The Department has completed improvements that will improve cash flow and customer relations. A new billing policy has been issued that will simplify invoicing and accelerate collections. A new business operations manual has recently been published that establishes standards for all regions and provides guidance to employees on various stages of a revenue earning cycle. These actions continue the planning and costing processes at Public Works Canada that have been in existence for a number of years and reflect private sector practices.*

Secretary of State/ Multiculturalism and Citizenship

9.119 Legislation establishing the separate Department of Multiculturalism and Citizenship received royal assent on 17 January 1991 and was proclaimed on 21 April 1991.

9.120 Need for departmental cost recovery policy, plans and data. The departments are aware that there are opportunities to increase revenue and are in the process of establishing a cost recovery framework. They have recently undertaken a study so they can submit to Treasury Board, by September 1991, user fee revenue plans in accordance with government requirements.

9.121 Secretary of State is taking steps to improve the collection of student loans. The amount of student loans paid out by the Department aggregated $708 million at March 1990, and collections for 1989-90 were $80 million. Steps to improve the collection management of student loans are being taken in response to our 1990 value-for-money audit. These include intensified discussions with financial institutions, reporting of student loans in default to credit bureaus, better evaluation of collection performance by agencies, and improved disclosure to Parliament. The

Department believes these measures will reduce program costs and improve collections. In addition, the Department is implementing the 3 percent guarantee fee on new loans announced in 1989. The Department estimates that this could generate $18 million a year starting in August 1991.

9.122 **Multiculturalism and Citizenship.** The Department has not determined the optimum level of fees related to citizenship registration, although it did revise fees for a five-year period. For example, the application for grant of citizenship fee for an adult has been set at $45 and will increase annually by $5 to reach $65 on 1 April 1993, in order to recover the additional revenue target of $2 million as approved by Cabinet and the Treasury Board in 1986. However, fees were not established with regard to the costs of providing the service. The Department considered other factors such as the class of users, market conditions, and the major increases implemented in April 1985. Nonetheless, the Department has yet to clearly determine the total costs incurred for registration activities. The revenue from citizenship registration fees, aggregating $5.5 million in 1989-90, represents about 27 percent of direct costs and perhaps 18 percent of total costs.

Departments' responses:

Secretary of State. *The Department confirms that paragraph 9.121 outlines the important facts concerning the management of student loans.*

Multiculturalism and Citizenship. *The Department confirms that paragraph 9.122 outlines the important facts concerning claimable rights for the registration of citizenship. The Department is now able to establish in a precise manner the total cost incurred by the activities of citizenship registration. The Department will be presenting to Treasury Board, in September 1991, its revenue plan in accordance with government policy.*

Comprehensive Audits

The following Comprehensive Audits have been conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

Chapter 10

Department of Agriculture Farm Safety Net Programs

Department of Agriculture

Farm Safety Net Programs

Main Points

10.1 The Department of Agriculture administers a group of programs known as the farm safety net programs. They include Crop Insurance, the National Tripartite Stabilization Program (NTSP), payments under the Agricultural Stabilization Act (ASA) and the Western Grain Stabilization Act (WGSA), and various ad hoc programs like the Special Canadian Grains Programs (SCGP) and the Canadian Crop Drought Assistance Program (CCDAP). The support to Canadian agriculture these programs represent has amounted to some $7.6 billion from 1986-87 until 1990-91 (paragraphs 10.8, 10.12, 10.15, 10.18 and 10.19).

10.2 We last reported on a comprehensive audit of the farm safety net programs in 1986, when we identified problems in effectiveness measurement and reporting, and in financial management and control. This year's audit re-examines these areas with respect to two types of safety net programs managed by the Department: those designed to counteract market risk and those intended to protect farmers against the hazards of nature (10.21 to 10.23).

10.3 Since our last audit, the Department has performed little ongoing performance measurement or program evaluation of these programs. Consequently, management has had little reliable information on the impacts and effects of these programs (10.36 to 10.47).

10.4 Some of these programs are required in law to be self-sustaining. Because the Department has not defined "self-sustaining", it is difficult for managers to recognize whether a program meets this requirement and hence, whether any deficit it may show is likely to be significantly reduced. It is sometimes not clear who is liable for the deficit if a program is found to be not self-sustaining, because responsibilities are not always adequately spelled out (10.50 to 10.56).

10.5 Most of these programs operate under federal-provincial agreements. We expected that the drafting and approval of agreements would be a tightly controlled process, involving the Department's legal, accounting, auditing and program experts. Despite the significance of these agreements, we found that the process is not well controlled. In the agreements, key matters such as objectives, responsibility, cost-sharing allocation and accountability are not made clear. These weaknesses have significant consequences (10.63 to 10.66).

Main Points (cont'd)

10.6 Under the terms and conditions of most agreements, the provinces play a significant part in delivering the programs — including ensuring that producers comply with program terms and conditions and gathering essential program data. As matters currently stand, the Department authorizes federal contributions and requests advances to finance program deficits without reasonable assurance that the provinces and the producers have complied with the agreements' terms and conditions (10.67 to 10.70).

10.7 The Department has known about many of the problems identified in this chapter for some time; they were raised in our 1986 audit and its own internal studies. But it has made little progress in responding to most of our 1986 recommendations, despite a commitment to the Public Accounts Committee to do so. The Department has been very busy in this period developing new legislation and programs. Our recommendations still apply to the continuing programs and are equally pertinent to the implementation of the new programs (10.93 to 10.99).

Table of Contents

Paragraph

Introduction 10.8

Audit Scope 10.20

Audit Observations and Recommendations

A Period of Enhanced Partnership 10.24

Effectiveness Measurement 10.31
- Vague socio-economic objectives need to be transformed into clear, consistent and measurable statements (10.31)
- Up-to-date evaluation information and ongoing effectiveness information are absent (10.36)
- The quality of program evaluations needs to be addressed (10.43)
- Review under the Farm Income Protection Act (10.48)

Requirement for Self-sustainability 10.50
- The requirement for self-sustainability is not sufficiently defined for purposes of program management and accountability (10.50)

Need for Trade-offs 10.57
- Socio-economic objectives need to be balanced with financial objectives (10.57)
- Western Grain Stabilization Program as an example (10.58)
- Implications under the Farm Income Protection Act (10.62)

Framework for Financial Management and Control 10.63
- Clear and complete specifications in agreements are essential to manage the programs properly (10.63)
- Department managers are relying on audit provisions that do not give them the assurance they believe they are getting (10.67)
- Vague provisions in agreements for sharing of administrative expenses allow for wide interpretations (10.71)
- Appropriate evidence is not always sought prior to program payouts (10.72)
- Adequate control frameworks have not been built into the agreements (10.75)
- Review under the Farm Income Protection Act (10.82)

Reporting to Parliament 10.83
- Crop Insurance (10.84)
- Reinsurance (10.87)
- National Tripartite Stabilization Program (10.89)
- Western Grain Stabilization (10.90)

Table of Contents (cont'd)

Paragraph

Ad Hoc Assistance 10.91

The Department is unable to provide evidence that approval was sought from the Governor in Council for substantial departures from the program it approved (10.91)

Need to Readdress Issues That Were Raised in the Auditor General's 1986 Report 10.93

Exhibits

10.1 Farm Safety Net Programs: Cumulative Federal Dollars Spent from 1986-87 to 1990-91
10.2 Basic Characteristics of Programs
10.3 Indicators of Self-sustainability
10.4 Western Grain Stabilization Fund
10.5 Crop Insurance Cumulative Account Balance
10.6 Indicators of Self-sustainability for Crop Reinsurance
10.7 Previous Safety Net Program Recommendations in the Auditor General's Annual Report

Department of Agriculture

Farm Safety Net Programs

Introduction

10.8 Economic assistance to farmers falls under a jurisdiction shared between the federal government and the provinces. The federal government led the way in the early years, establishing programs like those arising from the Agricultural Stabilization Act (ASA) and, in 1959, a federal-provincial Crop Insurance Program.

10.9 By the 1970s, the Agricultural Stabilization Act had evolved into a program that paid eligible farmers a subsidy on each unit of production. The payment was based on the amount by which the market price of the commodity fell below a target price established according to a formula. The details of this formula have varied over the years. In general, the target price of a commodity has been calculated using the average market price over a set period of years and the change in the estimated average cost of production. Operationally, the programs were very simple: the federal government applied the formula, calculated the amounts, and wrote the cheques to the farmers.

10.10 The other major program, the Canadian Crop Insurance Program, sells insurance to farmers to protect them against crop failures. Unlike the Agricultural Stabilization Act programs, the Crop Insurance Program is a shared program. The provinces deliver crop insurance and until 1990 — with the exception of Quebec and Newfoundland, who chose to cost-share — bore the administration costs. As with any insurance plan the subscribers pay premiums. The federal government assists in two ways: it contributes funds to these provincial schemes based on the premiums paid by the farmers — in essence sharing the risk — and it operates a "reinsurance" fund to advance cash to provinces to help finance any deficits in their schemes.

10.11 Both the provincial schemes and the federal reinsurance fund were to be self-sustaining — over time, farmers' premiums and government contributions had to equal the insurance paid to farmers.

10.12 There were additions to these two basic programs along the way. In 1976, the Western Grain Stabilization Act (WGSA) was introduced, largely in response to the feeling that Western grain farmers were not adequately assisted by the Agricultural Stabilization Act and other programs. As a result, all grain farmers in the Canadian Wheat Board's designated area were eligible for support under this new program and were no longer eligible for payments from the Agricultural Stabilization Act. Central and Eastern grain and oilseed farmers continued to be covered by the Agricultural Stabilization Act.

10.13 The Western Grain Stabilization Act was designed as an insurance program to protect against falling prices and/or rising costs. Farmers who paid the premiums were eligible for support payments, and the federal government provided funding at a level that was to match and exceed producer premiums.

10.14 In the 1970s and early 1980s, some provinces entered the field of price or income stabilization. They developed programs of their own to support eligible farmers who felt that national averages like those used in the Agricultural Stabilization Act programs were insufficient for their particular circumstances, and to give their farmers a competitive advantage in interprovincial trade.

10.15 In 1975, Parliament amended the Agricultural Stabilization Act to permit the creation of tripartite or bipartite stabilization plans. No bipartite schemes were developed and it was not until 1986 that the first of the plans in the National Tripartite Stabilization Program (NTSP) was signed.

10.16 Tripartite plans were to operate on an insurance basis and were to be self-sustaining. Enrolled farmers paid premiums related to the amount of the stabilized commodity they produced or the size of their operation. Each of the other partners in a plan — the provinces and the federal government — matched producer premiums. Target prices were established according to a formula, and when market prices fell below these target prices, it triggered a payment from the fund. If the payment were to exceed the balance in the fund or if the fund were to be in deficit, the federal government would advance the necessary money from the Consolidated Revenue Fund. However, the participating provinces had to agree to share with the federal government the liability for any deficits that might remain unrepaid at the end of an agreement.

10.17 In addition to contributing to the fund and sharing responsibility for possible deficits, participating provinces had to reduce or eliminate their own support programs for the commodity, or lower them enough to eliminate any competitive advantage in interprovincial trade. In 1989 the participants in the plans covering red meat (beef, hogs and lambs) and apples agreed to be bound by an overall net benefit ceiling on the combined provincial and federal benefits, including any contributions to farmers' premium payments made by either government. Officials of the Department state that they expect similar amendments in other plans. In all red meat agreements, both governments agreed to follow the advice of farmers' representatives and undertake a joint review of the ceiling in order to comply with Canada's evolving trade obligations.

10.18 In the government's view, the ongoing stabilization programs did not adequately protect producers from more severe damage caused by large-scale crises — whether natural disasters like drought or those caused by economic factors like international trade wars. Between 1985 and 1990, the Department implemented ad hoc programs to respond to what it saw as exceptional hardships faced by farmers — the Special Canadian Grains Programs (SCGP) of 1986 and 1987 and the Canadian Crop Drought Assistance Program (CCDAP) in 1988.

10.19 These programs, collectively known as the farm safety net programs, were administered by about 1 percent (124 of 11,337) of the Department of Agriculture's total person-year base in 1990-91 and were responsible for the distribution of $1.2 billion, which represented 44 percent of the total budget. As Exhibit 10.1 shows, between 1986-87 and 1990-91 the federal government supported Canadian agriculture through the safety net programs to the amount of some $7.6 billion (including amounts required to finance program deficits).

Audit Scope

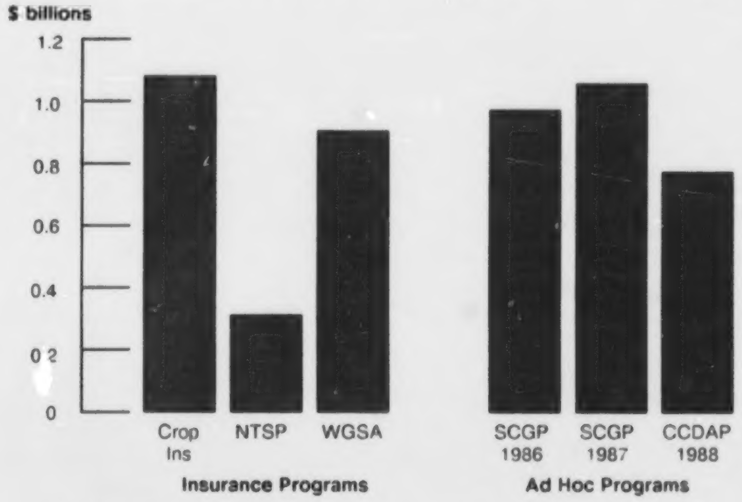
10.20 Our audit focussed on three types of safety net programs delivered by the Department, as shown in Exhibit 10.2: those designed to protect farmers against the hazards of nature (the Crop Insurance Program), those designed to protect against shocks in the market (the National Tripartite Stabilization Program and the Western Grain Stabilization Program), and those designed to protect farmers from the severe damage caused by large-scale crises (the Special Canadian Grains 1986 and 1987 and the Canadian Crop Drought Assistance ad hoc programs).

10.21 As in 1986, we asked whether management had in place satisfactory procedures for: a) measuring and reporting on the effectiveness of these programs; and b) offering reasonable assurance that the programs are subject to proper financial management and control.

10.22 In 1986, we included in our examination the subsidy paid to the Canadian Dairy Commission for distribution to dairy farmers, which accounts for some 70 percent of annual program expenditures under the Agricultural Stabilization Act. At that time, we

Exhibit 10.1

FARM SAFETY NET PROGRAMS
CUMULATIVE FEDERAL DOLLARS SPENT FROM 1986-87 TO 1990-91



Total federal expenditures	$ 5.1 billion
Federal advances and write-down to finance program deficits	$ 2.5 billion
	$ 7.6 billion

Source: *Public Accounts of Canada, Estimates Part IIIs, Agricultural Stabilization Board's Annual Report and Department figures*

Notes: *Dollars are expressed in the year of expenditure, i.e., the time value of money is ignored*

Other ad hoc programs such as the Special Income Assistance Program of approximately $500 million are not included

Direct payments to producers under the Agricultural Stabilization Act of approximately $1.8 billion are not included

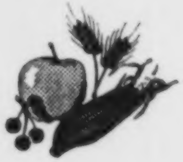
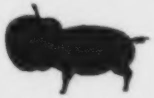
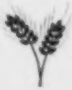
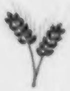
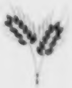
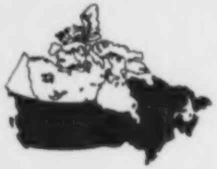
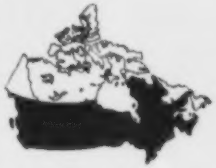
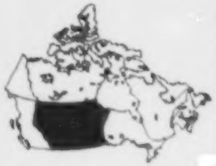
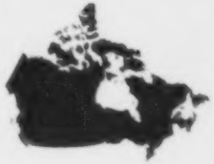
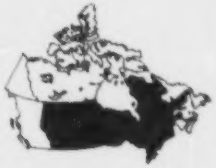
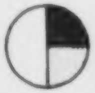
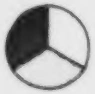
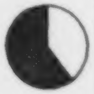
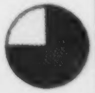
Legend:
Crop Ins - Crop Insurance Program
NTSP - National Tripartite Stabilization Program
WGSA - Western Grain Stabilization Act
SCGP - Special Canadian Grains Program
CCDAP - Canadian Crop Drought Assistance Program

were concerned about the terms and conditions governing the transfer of funds from the Department to the Commission. We recommended that a Memorandum of Understanding be developed to resolve these concerns, and this has since been done. We excluded the dairy subsidy from the scope of this year's examination.

10.23 The completion of a major review of agricultural policy resulted in the passage early this year of the Farm Income Protection Act: in effect, a new framework for all of the safety net programs. The Agricultural Stabilization Act and the Western Grain Stabilization Act have been repealed. The new legislation permits the establishment of a federally and provincially supported insurance program as a means of combining market risk (price) and production risk (crop damage and/or failure) protection for farmers. The new Act calls this program the Gross Revenue Insurance Program (GRIP) and complements it with the Net Income Stabilization Account Program (NISA). We did

Exhibit 10.2

BASIC CHARACTERISTICS OF PROGRAMS

	Yield Risk Protection	Market Risk Protection		Ad Hoc Programs	
	Crop Insurance	National Tripartite Stabilization Program	Western Grain Stabilization Program	Special Canadian Grains Programs	Canadian Crop Drought Assistance Program
Authority Quoted	Crop Insurance Act	Agricultural Stabilization Act	Western Grain Stabilization Act	Department of Agriculture Act	Department of Agriculture Act
Main Commodities Covered					
Participating Regions					
Types of Agreements	One agreement per province	One agreement per commodity	N/A	N/A	One agreement per province
Approved Funding	25% Federal 25% Provinces 50% Producers 	1/3 Federal 1/3 Provinces 1/3 Producers 	60% Federal 40% Producers since 1988 	100% Federal	75% Federal 25% Provinces 
Requirement for Self-sustainability	Yes	Yes	Yes	N/A	N/A

not audit these new programs, but we note that their design incorporates many features of certain existing programs, in particular the National Tripartite Stabilization Program and the Crop Insurance Program.

Audit Observations and Recommendations

A Period of Enhanced Partnership

10.24 By the early 1980s, the problems with support for agriculture had reached what many felt were near-crisis proportions. International trade issues, combined with domestic trade and other economic problems, rapidly escalated the costs to the federal purse of both yield risk and market risk protection programs. By 1985, faced with these combined pressures, the government began a series of discussions with its provincial counterparts aimed at making significant changes in farm safety net programs.

10.25 The government had three objectives for these changes: first, to encourage all parties to take a more responsible fiscal approach to agricultural income stabilization; second, to induce all levels of government to co-operate more in assisting farmers by creating a national safety net; and finally, to try to reduce the use of provincial support programs as instruments of competitive advantage in interprovincial trade.

10.26 As a result, the period from 1985 to 1991 has been very busy for those involved in the Department of Agriculture's safety net programs. Not only did they have to continue operating existing programs, but they were also involved in an intensive co-operative effort to restructure the entire federal-provincial approach to safety nets that had served agriculture for 20 years.

10.27 The first of the new safety net programs began with the signing by the federal minister and four provincial ministers of the 1986 National Tripartite Stabilization Program Agreements for hogs, lambs and beef. Today, the National Tripartite Stabilization Program includes eight plans operating in nine provinces. In 1990, significant amendments to the Crop Insurance Act resulted in all provinces contributing premiums to their schemes. Finally, in 1991, came the passage of the new Farm Income Protection Act, which gives the federal government authority to enter into agreements with provinces to create market and production risk protection programs for Canadian farmers. The new Act provides for a continuation and enhancement of both Crop Insurance and the National Tripartite Stabilization Programs, and as an option adds a Gross Revenue Insurance Program that provides insurance for both natural and market risks together.

10.28 The new Act also establishes the Net Income Stabilization Account, which provides for direct stabilization of farmers' incomes through a federal-provincial government-supplemented savings plan.

10.29 In developing these programs, the Department brought producers and provinces together in an extensive consultative process. The results were innovative. Essentially, each new program is based on a contract among three co-equal partners: the producers, the provinces and the federal government. This new partnership has been reflected in a series of structural changes in the relationship among the parties. However, according to the Department a new "corporate culture", involving all three parties and their approach to farm safety nets, is at least as important as the structural changes.

10.30 Under the new Act, the Department will be required to do two things well. First, it must be a skilled consulter, negotiator and mediator of interests. While all of the programs are now essentially tripartite in nature and the farmers, the provinces and the federal government are co-equal partners in shaping and managing these programs, the federal level continues to be looked to for leadership because of its national role. The achievements of the Department as negotiator and mediator are already a matter of public record. The second thing the Department must do well is apply management and administrative skills to turning successful negotiations into clear, well-structured agreements that can serve as the foundation for good management and co-operation in the longer term. This requires a very different set of skills.

Effectiveness Measurement

Vague socio-economic objectives need to be transformed into clear, consistent and measurable statements

10.31 In the enabling legislation for the safety net programs, Parliament has set out the objectives in general terms. Thus, these broad statements of intent need to be transformed into clear, consistent and measurable objectives as the basis for program design, management and accountability.

10.32 We were unable to find a single definitive statement of objectives for any of the safety net programs. Instead, our review of the Department's documentation identified a range of statements from a variety of sources showing significant differences about what should be expected from these programs. Moreover, each of these sources — the Operational Planning Framework, Part III of the Estimates and other documents such as departmental program evaluations — could be regarded as reasonably authoritative in its own right. In short, the wording and the number of objectives of any given program varied depending on where we looked.

10.33 We found key terms that had not been clearly defined. For example, the Department could not clearly explain what "fair share of the national income" means when applied to assistance under the Agricultural Stabilization Act and, in the case of Crop Insurance, the Department was unable to define clearly what was to be included in, or excluded from, multi-risk protection.

10.34 We also found that, under the Western Grain Stabilization Act, variations in statements of program objectives produced a target that was difficult to pin down, leaving the Department unable to define the program effects intended.

10.35 Together, the above problems can confuse managers, clients, trading partners and those ultimately responsible for programs about what they ought to expect from the programs.

Up-to-date evaluation information and ongoing effectiveness information are absent

10.36 Effectiveness measurement helps to answer the question: has the program been producing the results it was intended to produce? In a period of change, this is particularly important as a source of information for deciding what elements of existing programs should be carried forward into the design of new programs, as well as for identifying what has gone wrong. It is the identification of what has gone wrong, especially the unintended results, that can be of greatest value to those charged with developing new policy.

Effectiveness measurement helps to answer the question: has the program been producing the results it was intended to produce?

10.37 We examined the Department's program evaluation performance for the five-year period between 1985 and 1990 and found that none of the ongoing safety net programs had been evaluated. (A study looking at impacts of the Crop Insurance and Western Grain Stabilization programs in 10 communities was completed in 1986. However, the data applied to 1984-85 and this limited study was not designed to permit inferences about the overall results of these two programs.) Furthermore, no evaluation has been completed for the National Tripartite Stabilization Program, which had its first year of operation in 1986.

10.38 When the evaluation function looked at the safety net programs during this period, it focussed on the ad hoc programs. A series of studies was made of the 1986 and 1987 Special Canadian Grains Programs.

10.39 The absence of up-to-date evaluation information on the strengths and weaknesses of the ongoing safety net programs is significant, in view of the major changes in program design that the Department recommended be put in place. When one considers that significant change in these programs was clearly probable as early as the 1986 Ministers' Statement of Principles, and quite definite by 1988, it is surprising that the Department did not change its evaluation plans to gather current information on these programs, especially the National Tripartite Stabilization Program, for the policy review process. Eighteen months to two years is enough lead time for all but the most difficult of evaluations.

10.40 The absence of ongoing effectiveness information is a further significant gap. In 1986, we commented on the limited measurement and reporting of program effectiveness, particularly the development of performance indicators. In response, the Department concurred with our recommendations and undertook to develop specific, measurable indicators of performance, to measure performance using these indicators and to report the results. A series of performance indicators was approved by the Deputy Minister in 1989 as part of the Operational Planning Framework. However, the Department has not yet implemented the necessary information systems to gather ongoing information on safety net program results using these indicators. Management continues to operate these programs — spending hundreds of millions of dollars each year — with no continuing source of objective information about their effectiveness in relation to their several goals.

10.41 The Department should define performance objectives for its safety net programs and develop indicators for measuring the achievement of these objectives. It should measure the extent of such achievement and report the results of its performance measurement to Parliament and other interested parties.

Department's response: *The Department is addressing the development of performance indicators. For example, one critical gap in the range of performance measurement information has been in the area of "farm level data" to indicate the financial and management impact of government programs on individual farm businesses in different regions with various types and sizes of farm enterprises.*

The Department is addressing this issue by undertaking the construction of a major Farm Level Database. This effort builds on several surveys currently conducted (or planned) by Statistics Canada, data from various administrative sources (including the safety net programs themselves) and farm management data obtained from the provinces and universities. It will be an important resource for evaluating program modifications and developments, with specific plans already underway to use the information in the program evaluations required under legislation for the Gross Revenue Insurance Program (GRIP) and the Net Income Stabilization Account (NISA).

In the highly competitive world of agricultural trade policy, the failure to refute criticisms of programs is often accepted as concurrence.

10.42 The effectiveness of the Department's safety net programs is closely scrutinized by our trading partners, who measure the effects of the programs and report them publicly. When we drew the Department's attention to two such studies — one carried out by the Organization for Economic Co-operation and Development and the other done by the United States Department of Agriculture — the Department responded that it was aware of the studies and did not accept the results. We asked for the analysis that led it to reject these results; the Department provided nothing in reply. In the highly competitive world of agricultural trade policy, the failure to refute is often accepted as concurrence. This can mean that others whose interests may not coincide with Canada's are defining the effects of the Department's policies to the world.

The quality of program evaluations needs to be addressed

10.43 We reviewed all the evaluations of the Special Canadian Grains Programs undertaken thus far by the Department and found significant problems with their quality.

10.44 The evaluation of the 1986 Special Canadian Grains Program failed to address the problems of unclear program objectives. There was, in fact, no formal statement of program objectives included in the evaluation study. The evaluators asked the program clientele to offer their own idea of what the program's purpose was and to assess it accordingly.

10.45 The evaluation of the 1987 Special Canadian Grains Program ignored the issue of cost-effectiveness in assessing the program. It identified the objective of the program as "to cushion the effects of low commodity prices by ensuring that farmers' receipts are maintained at a level similar to previous years". The specific factor identified as giving rise to the need for the program was price variation caused by the European Economic Community and the United States international subsidy trade wars. The evaluation concluded that the program, in conjunction with the Western Grain Stabilization Act, had proven to be very effective. This was because total payments from both safety net programs to these farmers resulted in 75 percent of them having an income greater than they would have had in 1985 (pre-trade war). However, these data also raise the possibility that the cost to the government may well have been significantly higher than necessary. The Department did not attempt to assess this possibility.

10.46 The Special Canadian Grains Programs of 1986 and 1987 had an overall budget of $2.1 billion. Had the cost-effectiveness issue been addressed at the time the program's first year of operation was evaluated, program management would have received critical and timely information and could have recommended ways to more effectively target the second program.

10.47 Despite the resources the Department spent to evaluate these programs, it was only a later departmental study done outside of the official evaluation stream that tackled the "hard" issues. This study — one that departmental management points out is not an official evaluation — grapples with the issue of what the objectives of these initiatives really were and then assesses the program against those objectives; explores the key impacts (including the interaction with other programs); and ends by asking the question, "Was a 1986-87 Special Canadian Grains Program needed?"

Review under the Farm Income Protection Act

10.48 The new Farm Income Protection Act requires that a study of the programs be prepared for the Minister within five years. Departmental officials have assured us that this study will include all of the issues conventionally addressed by a program evaluation.

10.49 In addition to the specific financial and socio-economic objectives established for each program, the Department views the new Act as setting out five broad principles to be met by all programs:

- they should be production and market neutral so that farmers will adjust to market signals;
- the level of protection under each agreement should be consistent among agreements, and treatment of all classes of products should be equitable;
- programs should encourage the long-term social and economic stability of farm families and communities;
- programs should recognize the need for future changes that may emanate from Canada's evolving international obligations under the General Agreement on Tariffs and Trade, the Free Trade Agreement or other

similar trade agreements, and be compatible with these obligations; and

- in their design and operation, programs should reflect Canada's commitment to environmental sustainability and reflect economic sustainability aims, in order to promote initiatives that are efficient, self-sustaining over time and conducive to the sector's long-term development.

As set out, these are very broad objectives. It is vital that the Department further define them in operational terms by establishing specific sub-objectives so that the appropriate data are available when the time comes for the study.

Requirement for Self-sustainability

The requirement for self-sustainability is not sufficiently defined for purposes of program management and accountability

10.50 In keeping with the insurance component in their design, these programs — Crop Insurance, National Tripartite Stabilization, Western Grain Stabilization and the new Gross Revenue Insurance Program — are required to be self-sustaining. Setting this financial objective implies a requirement that, over time, premiums and government contributions together should match the amounts paid to farmers. However, this general definition does not define the term sufficiently clearly to serve as the basis for either program management or accountability. It is sometimes not clear who is liable for the deficit if a program is found to be not self-sustaining, because responsibilities are not always adequately spelled out.

10.51 Based on consultation with actuaries with experience in this type of plan, we are advised that, if the term "self-sustaining" is to be measured in a consistent and professional way, there are three questions that must be answered by the Department:

1. What is the time period over which the experience of the program is to be assessed?
2. What is the expected loss or gain over the term of assessment?
3. What is the required degree of confidence that actual experience will not deviate significantly from the expected loss or gain?

Once these questions have been answered, "self-sustaining" will be defined and the professional assessment of the premium rate necessary to achieve this objective becomes possible.

10.52 We found that, while the Department had indicated the time period over which self-sustainability was to be assessed for some programs, it had not answered all three questions for any of them. As a result, the Department does not know whether premium and contribution levels are adequate or excessive in relation to the need to be self-sustaining.

10.53 In the case of Crop Insurance, the Department is required both to assess reports on self-sustainability from the provinces and to render reports on self-sustainability to the Minister and others. The other programs also require reports on this. In the absence of a proper definition of the term "self-sustainability", the Department cannot fulfil its responsibilities.

10.54 Without clear criteria against which to assess self-sustainability, necessary and difficult decisions such as whether to raise premiums, or to recommend that programs that are not self-sustaining be shut down, become entirely matters of judgment. Judgment calls like these offer the decision maker little incentive to do anything other than continue with the status quo and hope that the agricultural economy will improve enough in the future to save the program.

10.55 In the current trading environment, the failure to manage these programs on a basis consistent with self-sustainability can be very serious. If, in the future, it were to become clear that these programs were consistently attracting deficits that farmers would be unlikely ever to repay, there would be every likelihood that our trading partners could view the deficits in whole or part as subsidies. Exhibit 10.3 outlines some cumulative surplus and deficit figures for three of the farm safety net programs that provide some indication of the extent to which they can be considered self-sustainable.

10.56 The Department should define the criteria for a self-sustaining program.

Department's response: *The Department obtained the services of an independent actuarial firm to receive advice on the most appropriate premium rate methodology and to provide their definitions of the terms self-sustaining and actuarially sound. The reports of these projects were provided to all provinces to incorporate into their premium rate methodology.*

The Crop Insurance Regulations require that by 1993, each province must provide signed actuarial certificates attesting to the fact that each plan is actuarially sound and that the crop insurance scheme is self-sustaining.

The Department has contracted with an actuarial firm to develop the guidelines and

Exhibit 10.3

INDICATORS OF SELF-SUSTAINABILITY

	Surplus ($ Millions)	Deficit ($ Millions)	Cumulative Loss Ratio
Western Grain Stabilization Program (at 31 July 1990)			
		1,837.9 (1)	1.69
Crop Insurance (at 31 March 1991)			
Saskatchewan		543.6	1.27
Newfoundland		0.1	1.24
British Columbia		16.2	1.16
New Brunswick		3.2	1.16
Manitoba		62.7	1.11
Alberta		24.1	1.02
PEI	1.5		0.96
Quebec	23.1		0.93
Ontario	78.0		0.85
Nova Scotia	3.4		0.64
National Tripartite Stabilization Program (at the most recent year-end prior to 31 March 1991)			
Sugar Beets (1986-1990)		12.2	2.37
Lambs (1986-1990)		2.5	2.25
Honey (1986-1990)		4.8	1.88
Beans (1986-1990)		13.0	1.81
Apples (1986-1990)		9.4	1.45
Hogs (1986-1990)		128.8	1.38
Beef (1986-1990)	120.6		0.62
Onions (1990)	0.6		0.00
Totals	***121.2***	***170.5***	

(1) Includes the $750 million write-down authorized in 1988

▨ *Cumulative loss ratios in excess of 1.10 indicate the accumulation of a deficit of at least $100,000 for every $1 million of premiums and government contributions collected and question self-sustainability.*

criteria which provincial actuaries will follow to certify the actuarial soundness and self-sustainability of programs.

Need for Trade-offs

Socio-economic objectives need to be balanced with financial objectives

10.57 One of the challenges in managing these programs, and those under the new Farm Income Protection Act, is to balance the attainment of socio-economic objectives and the requirement for self-sustainability. If objectives are unclear and performance measurement against them either is not possible or is not done, management will have difficulty making reasoned choices. Those to whom management is accountable will find it difficult to determine whether a decision to sustain a significant program deficit represents, in fact, value for money.

Western Grain Stabilization Program as an example

10.58 The Western Grain Stabilization Program is an example of how the pressures to help farmers in financial trouble came into direct competition with the objective to be self-sustaining. Lacking criteria for ordering priorities and a suitable control for limiting advances to keep program deficits within the self-sustaining range (i.e., a "stop loss" control), short-term decisions invariably added to the program's deficit, which reached the point in 1988 that a $750 million bail-out was necessary.

10.59 In 1986 we recommended that the Department of Agriculture, as a matter of urgency, review in detail all aspects of the Western Grain Stabilization Program for the program's financial viability. We also reported that the financial viability of the fund was in doubt — despite the fact that early in 1986 it had a surplus of approximately $600 million. The Department responded by stating that it would review all aspects of the program by December 1986.

10.60 Claims that the program was self-sustaining over a 20-year period had been made by the Department and reported routinely to Parliament. However, no study was ever conducted to demonstrate that the Western Grain Stabilization Program was, in fact, financially viable and self-sustaining over the 20 years the Department cited.

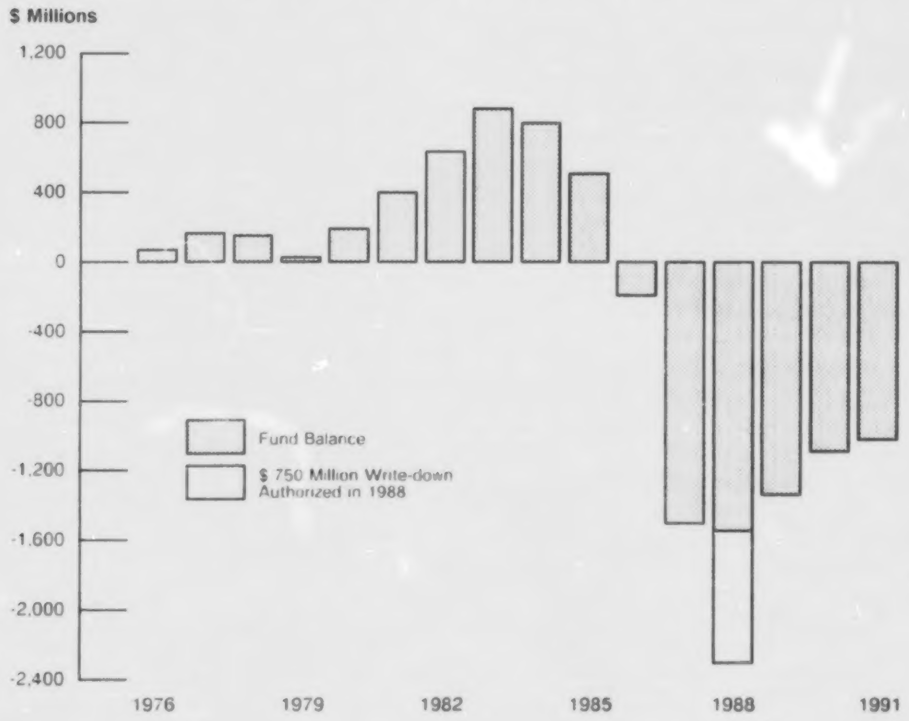
10.61 Both Western Canadian grain farmers and the federal government paid into the program's fund but the Farm Income Protection Act, which repeals the Western Grain Stabilization Act, does not specify what will become of the fund's $1 billion deficit (see Exhibit 10.4). The new Act simply states "the Western Grain Stabilization Account established in the accounts of Canada ... is hereby continued until such day as may be fixed" by Governor in Council. At the same time, because no current comprehensive evaluation of the program has been done, decision makers are unable to assess what — if any — socio-economic benefits balance out this billion dollar deficit.

Implications under the Farm Income Protection Act

10.62 Under the Farm Income Protection Act, the ability to recognize the precise point at which trade-offs must be made is even more vital than in the past. In order to trigger ad hoc programs, the new Act requires that the Minister be of the opinion that exceptional circumstances exist requiring action outside the scope of an established program. Good measurement of both the socio-economic support objectives and the self-sustainability of these established programs is essential if the Department is to advise the Minister appropriately on when to invoke ad hoc provisions.

Exhibit 10.4

WESTERN GRAIN STABILIZATION FUND



Source: Department of Agriculture

Framework for Financial Management and Control

Clear and complete specifications in agreements are essential to manage the programs properly *

10.63 For the National Tripartite Stabilization Program, the Crop Insurance Program, the Canadian Crop Drought Assistance Program and the new programs pursuant to the Farm Income Protection Act, the agreement among the parties is the substance of the program. If the agreement is a clear, complete, well-drafted document, future difficulties — be they substantive or administrative — will be minimized. However, in each of the ongoing programs based on an agreement, we found significant problems arising from a lack of clarity and incomplete specification in the agreements.

If the agreement is a clear, complete, well-drafted document, future difficulties – be they substantive or administrative – will be minimized.

10.64 Drafting agreements such as these in a manner that accurately incorporates both the program intent and appropriate levels of financial control and accountability requires a team of skilled legal, accounting, auditing and program staff all working closely together.

Based on our experience with the Department's controls over its contracts, we expected to find that draft agreements were thoroughly reviewed from all of these perspectives before they were finalized and signed off by the senior official for each function. Despite the fact that these agreements involve dollar values many times greater than those typically involved in contracts, we found that there was little formal requirement for specialist review. We found some evidence that legal services had reviewed the agreements, but these reviews do not seem to have focussed on the quality of the agreements as contracts. We were surprised to find that the financial function in the Department was not involved in drafting or reviewing the agreements before they were signed.

10.65 In formulating the agreements, federal officials first develop a draft of the agreement, which is negotiated with the provinces, refined and edited. The draft is sent for order-in-council approval, authorizing the Minister to enter into the agreement with other parties, substantially in the form submitted. It is vital that departmental experts be involved in the process. First, they can ensure that the drafts to be discussed with the provinces and the drafts to be sent to the Governor in Council for approval are well struck and include all the terms and conditions necessary to manage the program properly. Secondly, they can give assurance that the final agreement remains faithful to the order-in-council before it is signed by the Minister.

10.66 When it develops and negotiates agreements, the Department should ensure that the appropriate expertise is brought to bear before negotiating with the provinces. Senior departmental officials responsible for legal, accounting and auditing services and program delivery should be satisfied with the draft agreement and should sign off to the Deputy Minister before presentation for order-in-council approval. These officials should sign off all significant amendments to agreements thereafter, prior to approval by the Minister.

Department's response: *The Department fully agrees that clear, well-drafted agreement documents are the basis for strong program performance and administration, and will endeavour to ensure that all relevant experts of the Department contribute to formulation of such agreements and that senior officials sign off to the Deputy Minister.*

Department managers are relying on audit provisions that do not give them the assurance they believe they are getting

10.67 Before making payments pursuant to an agreement, prudent management and the Financial Administration Act require that compliance with its terms and conditions be verified with supporting evidence. Accordingly, a well-executed agreement should include the basis and timing of payments and audit arrangements.

10.68 Joint programs offer particular challenges in establishing appropriate levels of financial management and control to ensure, among other things, that federal interests are protected. This is especially important when a program is delivered, in whole or in part, by entities in other jurisdictions who also maintain the records, participate in program funding and share the responsibility for any deficits should a program be dissolved. We found weaknesses in all of these areas in the agreements we examined relating to the ongoing programs.

10.69 We found that departmental managers were relying on audit provisions that did not give them the type and level of assurance they believed they were getting from the audit reports they received. The result is that they were often unaware of serious administrative and compliance problems in the administration at the provincial level.

10.70 The Department should ensure that the terms of engagement and types of opinion sought from audit reports on provincial information provide the Department with the assurance to support the annual authorization of federal contributions made pursuant to the agreements. The Department should

ensure that it receives sufficient and appropriate evidence of provincial compliance with the terms and conditions of the agreements, including evidence of provincial fulfilment of their responsibility for ensuring producer compliance.

Department's response: *A compliance audit scope for crop insurance has been developed. This audit is being done to ensure compliance exists with the terms and conditions, laws, regulations and other authorities affecting the expenditures of federal and provincial funds and adequate internal controls exist and meet the objectives of the federal and provincial programs.*

As part of the compliance audit, the working papers of the provincial auditor will be reviewed. This same process will be established for other agreements.

Vague provisions in agreements for sharing of administrative expenses allow for wide interpretations

10.71 Where costs are to be shared, the nature and amount of the costs should be spelled out clearly enough that reasonable people are unlikely to disagree materially about the allocation of amounts involved. Canada will pay half of the provincial administrative expenses for the Crop Insurance Program, retroactive to 1 April 1990. Provincial administrative expenses will also be shared under the Gross Revenue Insurance Program. At the time of our audit, agreements had not been signed, but many of the terms and conditions in the draft agreements relating to cost sharing were so vague that wide variations in interpretation — with potentially significant financial effects — are possible. Departmental officials have stated that they share our concern and are working to draft these documents more precisely.

Appropriate evidence is not always sought prior to program payouts

10.72 Agreements should be structured in such a way that they provide evidence of compliance and allow for appropriate recourse where that evidence is not available or clearly departs from the agreement. In the Western Grain Stabilization Program, individual farmers' grain sales were used to determine what they owed the fund. Eligible grain sales and the payments deducted from them were reported by grain companies and elevators to whom these sales were made. However, the Department did not audit the accuracy and completeness of the data. Because data on these payments are used to determine support payments, it is critical that the data be both accurate and complete.

10.73 The Department approves federal contributions to the Crop Insurance Program and the National Tripartite Stabilization Program, without sufficient and appropriate evidence that the provinces have complied with the terms and conditions of the respective agreements. The Department's financial services group (responsible for an integral part of the verification and authorization process for the National Tripartite Stabilization Program and Crop Insurance Program) have told us that they authorize the payments of contributions to these programs without sufficient program knowledge for their authorization to be a meaningful financial control.

10.74 Before it authorizes payment from the Consolidated Revenue Fund the Department should ensure that the signing officers have sufficient and appropriate evidence that the terms and conditions of the agreement have been adhered to and that the charge is a proper charge against the appropriate act.

Department's response: *Most departmental programs in this area depend on information provided by third parties. The Department recognizes that it must confirm the integrity of this information through increased monitoring and compliance auditing.*

Adequate control frameworks have not been built into the agreements

10.75 Given the significance of the federal contributions to these programs and the size of the program deficits, we would have expected departmental program managers and the financial services group to have collaborated closely in drafting agreements and in developing compliance systems and procedures. However, we found no evidence of functional direction from the Department's financial services group or other financial specialists. We found this surprising in light of the Department's expenditure monitoring policy, which is based on risk assessment. However, procedures supporting this policy do not address statutory contribution programs such as the safety net programs — despite the fact that this is now the single largest category of expenditure by the Department.

10.76 Financial management and control requirements vary depending on how roles and responsibilities are divided between Canada and the provinces. For example, the Crop Insurance Program is delivered by provincial crop insurance organizations who are also responsible for financial reporting. The Gross Revenue Insurance Program is expected to operate in the same way. On the other hand, the National Tripartite Stabilization Program requires centralized accounting to support the preparation of national annual reports, which include national financial information.

10.77 It is important that the Department's financial systems provide integrated financial and non-financial information for the purpose of monitoring compliance with agreements. This should enable the Department to identify unusual variances promptly, allowing it to focus its compliance audit procedures more efficiently. In both programs, we found significant deficiencies with obtaining timely and reliable information from the provinces. Further, we found that financial and non-financial indicators necessary for management's analytic review were not integrated with departmental systems.

10.78 Inadequacies in the Department's systems for monitoring and reporting on individual programs are magnified when they are viewed from the perspective of the entirety of the farm income safety net programs. The financial and management information systems for the individual programs are not integrated with each other to give senior management timely information on the combined effect of all programs on an individual producer or commodity basis.

10.79 At the time of our audit, the accounting system for the National Tripartite Stabilization Program was not up to the task of preparing timely financial information. Despite the best efforts of the accounting staff, it is taking between 7 and 20 months after the year end for a plan to produce the annual report. Timely financial reporting is important to all of the partners in the plans.

10.80 In our opinion, the program's accounts have not been kept in a manner that permits the preparation of timely and accurate financial information and statements. As a result, accountability to participants in the program, the Minister, legislators, and the public is not adequate.

10.81 The Department should ensure that books of account for both new and continuing programs permit the timely preparation of accurate financial statements and appropriate management information, and should see that they are faithfully and properly maintained.

Department's response: *The Department agrees with the recommendation. While we recognize that financial systems and procedures in place for the 1988 and 1989 NTSP fiscal years were not up to the task of enabling the ASB to prepare annual reports to signatories on a timely basis, the systems are being reviewed to implement any required improvements.*

Review under the Farm Income Protection Act

10.82 As we noted earlier in our discussion on effectiveness, a review of the programs must be prepared for the Minister before 1 April 1996. In addition to addressing program effectiveness in the context of clearly defined objectives, we would also expect the review to examine the management and, in particular, the financial management of these programs. Such a review should address, among other matters:

- the definition(s) of self-sustainability adopted for each program and the measurement of performance against that definition;
- the appropriateness of the systems developed to monitor progress toward program objectives;
- the administration of the agreements, particularly such processes as determining loss, accounting and financing, data processing and management;
- the adequacy of evidence that provinces and producers are complying with the terms and conditions of the agreements;
- the adequacy of management information and accounting systems both for the management and control of the programs and for accountability; and
- the adequacy of accountability reports, such as Part IIIs and annual reports.

Reporting to Parliament

10.83 Information on Crop Insurance, on Crop Reinsurance and on the National Tripartite Stabilization Program is presented in the Estimates Part III for the Department of Agriculture. However, in each case this information is presented in an aggregated form as described below. Aggregating this information for financial accountability purposes is not warranted, and the result is the presentation of misleading information.

Crop Insurance

10.84 The Department reported in its 1991-92 Part III that the cumulative loss ratio is one indicator of long-term self-sustainability, and it presented an aggregated cumulative loss ratio for all provincial schemes of 1.10. A consistent cumulative loss ratio greater than 1.00 indicates that a scheme is not self-sustaining; it shows that over the long term cumulative indemnities have exceeded cumulative premiums. A ratio of less than 1.00 is not unfavourable; it indicates the existence of a reserve to address the risk of major losses in future years.

10.85 The Department's presentation of an aggregated cumulative loss ratio for all schemes combined is misleading; each provincial scheme should be shown separately because each must be self-sustaining on its own. At 31 March 1991, cumulative loss ratios for the individual provincial schemes varied between 0.64 and 1.27. A ratio of 1.27 indicates that cumulative indemnities have exceeded cumulative premiums by 27 percent and that the scheme has accumulated a deficit of $270,000 for every $1 million in premiums it collects. Similarly, a ratio of 0.64 means a reserve of $360,000 for every $1 million collected.

10.86 At 31 March 1991, as Exhibit 10.3 shows, five of the schemes had cumulative loss ratios in excess of 1.10 and, therefore, may not be meeting their legal requirement to be self-sustaining — a very different picture from that implied by the presentation and discussion in the Part IIIs. Reporting a single consolidated amount masks the serious problem of the most troubled account — Saskatchewan (see Exhibit 10.5).

Reinsurance

10.87 The Department administers a Reinsurance Fund into which participating provinces pay premiums, and from which they may draw advances when high payments leave the provincial programs with insufficient cash to meet payments to farmers. In reporting on the state of the fund in the Part IIIs, the Department aggregates the individual provincial balances into a single set of values. However, when cumulative payments exceed cumulative reinsurance premiums for a specific province, the resulting shortfall is paid back through that province's reinsurance premiums. Accordingly, the Department's practice of representing the Reinsurance Fund's deficit without presenting the balances by province is misleading. When the individual account information is segregated, a very different picture of the fund emerges (see Exhibit 10.6).

10.88 The Department reported in its 1991-92 Part III that "it is estimated to take six years to eliminate the deficit" in the Reinsurance Fund. We are of the view that this forecast is unfounded in light of the observations presented above.

National Tripartite Stabilization Program

10.89 The Part III disclosure of the deficit for this program is also misleading. Again, it nets individual plan surpluses and deficits, thus masking the financial position of the individual plans. However, the government's responsibilities in cases where there are deficits differ from its responsibility for those plans in a surplus position. Deficits are divided between participating provinces and Canada, while surpluses are divided equally among the stakeholders.

Western Grain Stabilization

10.90 Last year, during the course of the follow-up audit of the Part III, we expressed concern with the presentation of financial information on this program. In this year's document, the Department has significantly improved the presentation of the information.

Ad Hoc Assistance

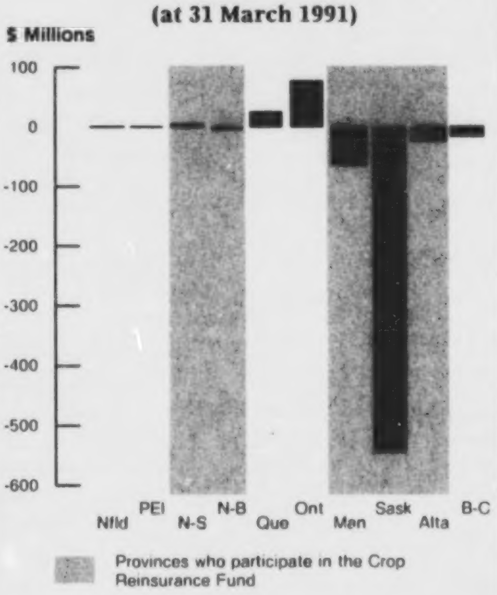
The Department is unable to provide evidence that approval was sought from the Governor in Council for substantial departures from the program it approved

10.91 The Canadian Crop Drought Assistance Program (CCDAP) was announced as a shared-cost program, initially to be funded on a 50-50 basis with the affected provinces. The provinces, however, had not agreed to this sharing ratio. The Governor in Council finally approved an agreement based on a 75 percent federal to 25 percent provincial sharing ratio. However, the Department had paid most of the money to the farmers in 1989, well before any of the agreements with the provinces had been

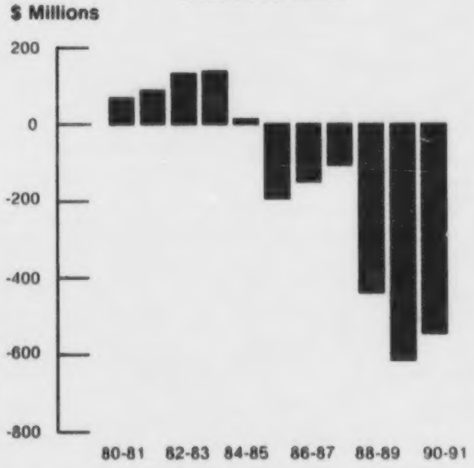
Exhibit 10.5

CROP INSURANCE
CUMULATIVE ACCOUNT BALANCE

BY PROVINCE
(at 31 March 1991)



SASKATCHEWAN



Source: Department of Agriculture

The presentation of Crop Insurance Account balances by province illustrates the very serious problem of the most troubled account – Saskatchewan

Exhibit 10.6

INDICATORS OF SELF-SUSTAINABILITY FOR CROP REINSURANCE
(at 31 March 1991)

Province	Provincial Reinsurance Account Balance	Average Annual Premiums *	Provincial Scheme Cumulative Loss Ratio
Saskatchewan	$ (447.00) M	$ 32.00 M	1.27
Manitoba	(25.00) M	9.00 M	1.11
Alberta	(22.00) M	24.00 M	1.02
New Brunswick	(2.00) M	0.30 M	1.16
Nova Scotia	0.60 M	0.04 M	0.64

* *Average based on last three years*

made. In our opinion, this may have compromised the federal government's ability to negotiate. The signing of agreements went on throughout the following year, with the last agreement signed in October 1990. However, at the time of our audit, one province — Manitoba — had yet to sign an agreement. If Manitoba signs an agreement based on a 75:25 ratio, the province will owe the federal government $37 million.

10.92 We reviewed the agreements that had been signed. We found that, although the order-in-council approving the program provided for a 75:25 cost-sharing ratio, in real terms the agreements produced ratios of from 75:25 in one case to as high as 89:11 in another. The Department is unable to provide evidence that approval was sought from the Governor in Council for these substantial departures from the original program the Governor in Council had approved. We note that the agreement with Saskatchewan provides for a credit to Saskatchewan in the amount of $41 million. There is no authority in the program order-in-council for such a credit, and the Department cannot provide any other authority for it.

Need to Readdress Issues That Were Raised in the Auditor General's 1986 Report

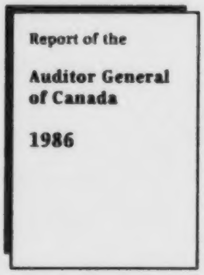
10.93 Many of these problems are not new to the Department. We and others have drawn these matters to its attention, but the Department has not yet dealt with most of them.

10.94 When we last looked at the safety net programs, we identified a number of problems and made several recommendations to remedy them (see Exhibit 10.7). The Department agreed with each and made a commitment to Parliament to act expeditiously to implement them.

10.95 In 1987, the Public Accounts Committee stated in its Report to the House of Commons on our 1986 audit of the Department: "Your Committee is concerned by the Department's slow progress in implementing the recommendations of earlier audits. This raises the question of the effectiveness of the internal audit and program evaluation functions within the Department....Your Committee is also concerned about the response to the present audit." In 1989, we reported on the status of action as at 31 December 1988, taken by the Department in response to the Office's observations and recommendations of its 1986

Exhibit 10.7

PREVIOUS SAFETY NET PROGRAM RECOMMENDATIONS IN THE AUDITOR GENERAL'S ANNUAL REPORT



Report of the

Auditor General of Canada

1986

GENERAL

8.42 "... should develop a strategic plan for the delivery of its programs. It should also establish goals for each of its programs and document the principles, policies and operating procedures to achieve them."

8.46 "... should develop and implement an appropriate system for designing, testing and reviewing costs-of-production models."

8.50 "... should develop specific, measurable indicators of performance, to show progress toward program goals. Parliament should be informed of the levels and cost of commodity support, and these should be linked to the significance of the commodity."

PROGRAM SPECIFIC

8.56 Agricultural Stabilization Act. "... should ensure that funds are spent only for purposes for which they have been appropriated by Parliament; verify calculations supporting stabilization payments prior to making the payments, and ensure that the Agricultural Stabilization Board approves each stage of the process; and consider whether overpayments can be recovered."

8.83 Crop Insurance. "... should define what constitutes a self-sustaining insurance plan, make provision for adequate reserve funds, and analyze future trends as well as past experience to estimate long-term expected claims."

8.84 "... should review the appropriateness of its rates every two or three years, on the basis of a formal actuarial review of its insurance plans."

8.89 "... should provide complete information, with an opinion, to the Minister and Governor in Council on whether insurance plans are self-sustaining and actuarially sound. Where they are not, it should make recommendations on what is required to re-establish self-sufficiency, at least for the largest plans."

8.90 "... should examine options for expediting the process of amending federal-provincial agreements so ministerial consent can be obtained before new rates and prices are marketed."

8.93 "Performance indicators should be developed ... and the results of using them should be reported to Parliament, with details on the degree of self-sufficiency of current crop insurance plans."

8.68 Western Grain Stabilization Administration. "... should, as a matter of urgency: carry out a detailed review of all aspects of the Western Grain Stabilization Administration from the viewpoint of its financial viability; and brief the Minister fully on the financial implications of its interpretation of the method of calculating the stabilization payments to be made under the Western Grain Stabilization Act and obtain specific approval to use this or any other interpretation."

Report. We reported that during the 18 months that had elapsed between the end of our audit and the end of 1988, while significant progress had been made, many of the structural problems relating to our recommendations remained unresolved at the time of our follow-up. Today we find that, in all but a few cases, the Department has made little further progress on the 1986 recommendations.

10.96 In response to one of these recommendations, the Department commissioned a study of the Crop Insurance Program. The resulting report identified a number of areas where improvements could be made. Action has been taken on some of these, but many remain outstanding.

10.97 The Department also commissioned a study of the associated financial management and controls, which identified a variety of problems and suggested how management could address them. In 1989, the Department wrote to the Auditor General enclosing a copy of the study report and stating that action was under way to implement the recommendations. We found that little progress has been made since then.

10.98 As we noted earlier, the period from 1986 to now has been an active one for the managers of the safety net programs. They have had to respond to the Minister's priorities and have focussed most of their available energies on achieving what has been little short of a policy revolution. This has, however, been at the cost of good housekeeping and program maintenance. Although some of our recommendations were directed at programs that no longer exist, the recommendations remain valid for the surviving programs. The Department should now turn, as a matter of some urgency, to actions they agreed to take at an earlier date.

10.99 In addition to responding to the recommendations of this chapter, the Department should return its attention to dealing with the 1986 recommendations it agreed to, as restated in their generic form in Exhibit 10.7.

***Department's response**: The Department agrees and work is currently underway to complete implementation of the recommendations.*

Chapter 11

Department of the Environment
Conservation and Protection

Department of the Environment

Conservation and Protection

Main Points

11.1 The division of powers between the federal and provincial governments under the Constitution Act makes no explicit mention of the environment. Each level of government has powers that impact on the environment. The overlapping nature of environmental jurisdiction makes partnerships between the provincial, territorial and federal governments vital to Canada's environmental well-being (paragraphs 11.13 to 11.19).

11.2 The Department of the Environment has not clarified with the provinces their respective authorities and responsibilities for compliance and enforcement activities, nor has it negotiated agreements with the provinces for efficient and effective achievement of environmental quality goals (11.29, 11.41 and 11.42).

11.3 Priorities for enforcement of and compliance with regulations have not been clearly defined (11.45 to 11.48).

11.4 Enforcement and compliance activities are not adequately monitored and evaluated (11.43, 11.47 and 11.54 to 11.57).

11.5 Information for planning and management control is not adequate to ensure that enforcement and compliance operations are managed with due regard to economy and efficiency, that laws and regulations are consistently applied and that an appropriate level of compliance is achieved (11.52, 11.54 and 11.55).

11.6 The Great Lakes Water Quality Agreement and its implementation structure are considered by many to be a good model for countries managing shared resources (11.64).

11.7 The provisions of the Great Lakes Water Quality Agreement require that operational and Remedial Action Plans be implemented. These plans lack specific goals and deadlines that could be used to hold managers accountable for the results obtained. In our opinion, this has slowed progress in dealing with the serious toxic pollution of the Great Lakes, although there have been significant reductions in some pollutants (11.69 to 11.76).

11.8 Information for Parliament on the Department's enforcement and compliance activities and on Canada's contribution to the prevention and clean-up of pollution in the Great Lakes is inadequate for accountability purposes (11.93 to 11.110).

Table of Contents

Paragraph

Introduction

- **Environmental Concerns are Growing** 11.9
- **Jurisdictional Complexities** 11.13
- **The Need for Good Environmental Information** 11.20
- **The Need for Environmental Accountability** 11.21
- **The Department is Accountable for Many Environmental Programs** 11.27

Enforcement and Compliance Activities

- **Audit Scope and Criteria** 11.33
- **Background** 11.35
- **Observations and Recommendations** 11.39
  - Delays in regulating toxic substances (11.39)
  - Expectations about new regulations (11.40)
  - Limited progress on equivalency agreements (11.41)
  - Insufficient monitoring of compliance levels (11.43)
  - Co-ordination of enforcement effort with other departments (11.44)
  - Need for specific policies, priorities and goals (11.45)
  - Need for consistency in enforcement and compliance (11.49)
  - Information for performance evaluation is inadequate (11.54)
- **Conclusion** 11.58

Great Lakes Water Quality Agreement

- **Audit Scope and Criteria** 11.59
- **Background** 11.61
- **Observations and Recommendations** 11.69
  - Weaknesses in strategic and operational planning (11.69)
  - Weaknesses in the Remedial Action Plan process (11.72)
- **Conclusion** 11.77

Accountability Reporting

- **Audit Scope and Criteria** 11.78
- **Observations and Recommendations**
  - **Part III of the Estimates for 1990-91 and for 1991-92** 11.80
    - Introduction (11.80)
    - Inadequacy of information (11.81)
    - Failure to compare results to plans (11.83)
    - Lack of information on external factors (11.86)
    - Conclusion (11.91)
  - **The Reports of Canada Under the 1987 Protocol to the 1978 Great Lakes Water Quality Agreement** 11.93
    - Introduction (11.93)
    - Lack of information on results (11.94)
    - Improvement in reporting (11.95)

Table of Contents (cont'd)

Paragraph

The Report to Parliament on the Administration and Enforcement of the Canadian Environmental Protection Act (CEPA) 11.98
- Introduction (11.98)
- A clearly written document (11.99)
- Lack of information (11.100)
- Incomplete or selective information could be misleading (11.102)
- Is the Canadian Environmental Protection Act protecting the environment and human health? (11.108)
- Conclusion (11.110)

Accountability to Parliament Remains a Problem 11.111

Exhibit

11.1 Areas of Concern in the Great Lakes Basin

Department of the Environment

Conservation and Protection

Introduction

Environmental Concerns are Growing

11.9 The Department of the Environment was created in 1971 during a major wave of public environmental concern, when attention in Canada and elsewhere was focussed largely on obvious local and regional problems — piles of unsightly garbage, belching smokestacks, smog over big cities, soil erosion and visible pollution of many lakes and rivers. People worried about quality of the environment, depletion of forests, and potential shortages of basic raw materials and food.

11.10 Some of these problems were partly abated. Conservation, waste reduction and pollution control helped to reduce some of the most visible signs of pollution; conservation and increased production helped avoid immediate shortages of raw materials.

11.11 Controls on phosphates in washing detergents and changes in municipal sewage treatment and farming practices helped reduce the flow of nutrients into the Great Lakes. This improved the clarity of the water but did little to address other, often invisible, contaminants. Controls on toxic substances helped reduce some of these contaminants. However, contaminant levels are still not acceptable.

11.12 Toward the end of the 1980s there was a new wave of environmental awareness, with a growing public understanding that environmental problems are global and pervasive. Regional and transcontinental environmental impacts, although not yet fully understood, are known to affect virtually all living things. Scientists warn of dangers ranging from ozone depletion and greenhouse warming to forest depletion and harmful effects of very small amounts of persistent toxic substances.

Jurisdictional Complexities

11.13 The environment involves some of the most difficult policy and regulatory challenges for government. Environmental problems are scientifically complex and involve significant uncertainties concerning cause and effect linkages. Environmental problems rarely respect geographic or jurisdictional boundaries, and increasingly are linked to major questions of economic policy and international equity.

Partnerships between governments are vital to success.

11.14 The division of powers laid out in the Constitution Act, 1867 makes no explicit mention of the "environment". Jurisdiction is based on the allocation of powers in areas related to the environment; in practice, each level of government has jurisdictional powers that are important for effective environmental management. As a result, jurisdiction in environmental matters is shared, with the locus of primary responsibility changing with circumstances and as the understanding of issues evolves. The shared nature of environmental jurisdiction makes partnerships between the federal, provincial and territorial governments vital to the success of national environmental policies and objectives.

11.15 Close co-operation between governments is also a practical reality. Some environmental problems — such as water supply and sewage — are predominantly local and therefore are best handled at the municipal or provincial level. But a growing number of environmental problems transcend local and provincial boundaries and are becoming matters of national and, increasingly, international concern. Lasting results can be achieved only through co-ordinated efforts at both the domestic and international levels. Problems such as acid rain, ozone depletion, global warming all require co-ordinated global action. But while Canada can negotiate international conventions, for example on global warming, much of the responsibility for corrective action will be shared with the provinces.

11.16 The science underlying environmental issues is increasingly complex and rapidly expanding. There are no simple solutions. For example, pollution of the Great Lakes is not just a water pollution problem; it is an ecosystem problem that is related to the way we use the water, air and land. The development of environmental policy and regulation must be an ongoing effort, based on sound environmental science, recognizing the need for action sometimes even in the face of scientific uncertainty.

11.17 Environmental problems cannot be dealt with in isolation from economic issues. Through the work of the World Commission on Environment and Economy (the Brundtland Commission), we have come to recognize that lasting solutions can be achieved only through an integrated approach — one based on sustainable development. This will require a long-term process of fundamental change in behaviour and in decision making at all levels of society.

Important progress has been made.

11.18 Despite these unique and difficult policy and regulatory challenges, important progress has been made. Jurisdictional roles are being clarified and co-operative mechanisms strengthened. Existing formal mechanisms, including equivalency and administrative agreements under the Canadian Environmental Protection Act, are being negotiated. The Canadian Council of Ministers of the Environment (CCME) has adopted a Statement on Interjurisdictional Co-operation on Environmental Matters, which establishes the overall framework for joint environmental action between the two levels of government. In addition, the CCME has developed Co-operative Principles for Environmental Assessment. In conjunction with the proposed Canadian Environmental Assessment Act, this should help to clarify roles and responsibilities in the environmental assessment process.

11.19 A number of major international agreements are in place, including the Montreal Protocol on Substances that Deplete the Ozone Layer. While continuing efforts are needed to ensure the success of these agreements, and to move forward in other areas such as global warming and biodiversity, developing and developed countries have demonstrated that they can achieve consensus on difficult issues.

The Need for Good Environmental Information

11.20 The government depends on support from Parliament and the public. To decide whether to give that support, Parliament and the public need information — on the issues government wants to address, how it plans to address them, and the results it achieves. Government accountability to Parliament and the people for its use of the powers and money they have granted is a cornerstone of our democratic system.

The Need For Environmental Accountability

11.21 The Auditor General's 1990 Report cited environmental protection as a prime example of the need for accountability. In Canada responsibility for the environment is shared among levels of government. At the federal level it is further divided among many departments and agencies.

11.22 Where powers are shared, there is a need for clear definition of responsibility, co-ordinated effort and precise accountability reporting, particularly where those powers involve protecting the environment.

11.23 Resolving environmental problems calls for international, federal-provincial and interdepartmental agreements that clearly spell out respective authorities and responsibilities for actions and results. Such agreements, and reports by the parties on their plans and results, are the public's key instruments for holding their elected representatives accountable for environmental management. The quality of the federal government's accountability reports is vital to Parliament and its committees in their reviews of government programs with environmental impacts.

11.24 In 1990 we noted the absence of a national environmental strategy. In December 1990, the government announced its Green Plan, described as Canada's action plan for achieving a healthy and sustainable environment. The Green Plan refers to many ongoing environmental programs, along with new initiatives which are to be announced over time. The cost of implementing the Plan is forecast at $3 billion over six years — in addition to the reported $1.3 billion a year currently allocated to departments for environmental programs.

11.25 The government has called the Green Plan the basis for judging its progress on environmental issues. Ultimately, the success of the Plan — however it is measured or judged — will depend on the collective efforts of all governments, industry and individual Canadians. The government has said that, beginning in 1992, it will introduce a State of the Environment Policy Statement in an annual address to Parliament. These initiatives can be important steps toward improved accountability by the government for its stewardship over the environment.

11.26 Although the Green Plan affects the programs of many departments, the Department of the Environment has the lead role in its further development and implementation; it is also responsible for many of the government's continuing environmental programs. Therefore, the primary responsibility to account to Parliament for these programs — their costs and results — is also the Department's.

The Department is Accountable for Many Environmental Programs

11.27 This report focusses on the Conservation and Protection Service of the Department of the Environment, whose responsibilities within areas of federal jurisdiction include:

- preventing, reducing or eliminating adverse environmental effects arising from development, from the release of pollutants and from the use of hazardous substances;
- ensuring that the environmental quality at spill and waste sites is restored to acceptable levels; and
- meeting federal responsibilities for the sound management and development of Canada's water and land resources, migratory birds, and threatened and endangered species, and for other national and international wildlife issues.

11.28 In 1990 we reported on weaknesses in the Department's evaluation of programs and in the reporting of evaluation results to Parliament. We had begun a review of the Department's relationships with the provinces and other federal departments in implementing and enforcing federal environmental legislation.

11.29 We also noted that the federal-provincial division of responsibilities made it virtually impossible to assign public accountability for safeguarding the environment. Although a number of initiatives are under way, the federal and provincial governments have not yet succeeded in clarifying their respective responsibilities on several important matters, such as assessing the environmental impacts of projects that overlap federal and provincial jurisdictions. However, the government anticipates that the new Environmental Assessment Act (Bill C-13) will help clarify some of these responsibilities.

11.30 Interdepartmental overlap of responsibilities in the federal government also *makes it difficult to assign accountability to* individual departments and agencies.

11.31 In this audit we reviewed the Department's own environmental programs. Specifically, we examined whether the Department manages the following activities with due regard to economy and efficiency, and whether the procedures it uses to measure effectiveness are adequate:

- enforcing and promoting compliance with federal legislation for the prevention and control of pollution of air, land and water; and
- planning, co-ordinating and reporting in connection with the administration of Canada's responsibilities in cleaning up and controlling pollution in the Great Lakes.

11.32 We also examined the quality of information on these activities presented in three important public accountability documents.

Enforcement and Compliance Activities

Audit Scope and Criteria

11.33 Our audit of the enforcement and compliance activities focussed on the Department's administration of the Canadian Environmental Protection Act (CEPA), its responsibilities under Section 36 of the Fisheries Act and its limited role under the Transportation of Dangerous Goods Act.

11.34 To manage its compliance and enforcement activities economically and efficiently and to promote an effective level of compliance with the law, the Department needs to:

- have appropriate working arrangements with the provinces and with other federal departments;
- establish and follow a set of policies, priorities and plans;
- *allocate and use its resources efficiently* according to predetermined priorities; and
- account for its results in comparison to objectives.

Background

11.35 The Department promotes activities that help achieve and maintain environmental standards. These include identifying sources and causes of pollution; advising on ways to prevent pollution and restore the environment; regulating the introduction, transportation, use and disposal of toxic substances; and enforcing environmental laws and regulations.

11.36 The primary statutory mechanisms available to the Department to prevent and control pollution of air, land and water are the Canadian Environmental Protection Act (CEPA) and the Fisheries Act. The CEPA gives the Department power to protect human health and the environment from toxic substances. The Department of Fisheries and Oceans has overall responsibility for the Fisheries Act but the Department of the Environment administers Section 36, which deals with the release into water of substances that are harmful to fish. The Department co-operates with the Department of Transport in controlling the transportation of waste dangerous goods which are detrimental to human health and the environment.

11.37 A variety of activities can be used to bring about compliance with the law. Compliance promotion includes educating companies and the public on the requirements of the law and on ways to avoid pollution. It can also include assistance in the form of technology and of tax or other economic incentives. Enforcement includes activities designed to detect violations, to require correction or, as appropriate, to collect evidence and prosecute violators. Enforcement measures can range from warnings and directives to fines and imprisonment.

11.38 Strict enforcement of regulations may not always be the most cost-effective way to achieve environmental goals. However, in some cases prosecution may be necessary to demonstrate the government's resolve to stop pollution.

Observations and Recommendations

Delays in regulating toxic substances

11.39 The Priority Substance List was established under the Canadian Environmental Protection Act (CEPA) by an independent advisory panel in February 1989. The list contains 44 substances in current use in Canada that are considered potentially dangerous to human health and the environment, and which require assessment on a priority basis. The CEPA requires that the departments of the Environment and National Health and Welfare determine the risks of these substances to human health and the environment, and whether they should be regulated. Although the CEPA requires that all the substances be analyzed by 1994, only two have been investigated fully and the Department is falling further behind its own internal timetable. Regulations are being developed to control the use, storage, transportation and disposal of these two substances.

Expectations about new regulations

11.40 The Green Plan implies that existing regulations are inadequate to control toxic substances. It states that the government's goal is to assess 100 priority substances by the year 2000 (including the 44 substances currently on the Priority Substance List) and to enact regulations for all substances found to be toxic. The Green Plan and the CEPA have created expectations that there will be a major increase in the number of environmental regulations and that they will be enforced. However, the Department has difficulty enforcing the 23 regulations currently existing under the CEPA and the Fisheries Act. Furthermore, we saw no evidence that the Department has fully analyzed the implications of enforcing a greatly increased number of regulations.

Limited progress on equivalency agreements

11.41 The CEPA enables the Minister of the Environment to enter into equivalency agreements with each province in order to ensure that toxic substances are controlled. By signing an equivalency agreement, the Minister and his provincial counterpart agree that there is in force, in that province, legislation equivalent to the CEPA regulation, and that the particular CEPA regulation does not apply in that province. By harmonizing provincial and federal controls, equivalency agreements would help to ensure that environmental legislation, methods of enforcement and levels of compliance were consistent across the country.

11.42 Equivalency agreements would help eliminate the potential for duplication where provincial regulations would have the same effect as federal regulations. At the same time, they would provide for an appropriate exchange of information on enforcement efforts and the levels of compliance they have achieved. Draft agreements have been developed and efforts made to clarify the criteria for equivalency. However, at 30 June 1991, three years after the CEPA was proclaimed, no equivalency agreements were yet in place.

Insufficient monitoring of compliance levels

11.43 Except for the Atlantic provinces, coastal British Columbia and the northern territories, the government's responsibility for administering the Fisheries Act has been delegated to the provinces. Generally, there is little formal documentation concerning these arrangements. Furthermore, the Department of the Environment does not adequately monitor the provinces' activities under Section 36 of the Fisheries Act. As a result, the Department does not have adequate information for management planning and control purposes and cannot provide information to Parliament on levels of compliance with the regulations it is responsible for administering.

Co-ordination of enforcement effort with other departments

11.44 Co-ordination of compliance and enforcement activities with other federal departments is necessary for control of pollution, particularly in joint administration of environmental legislation. The Department has memoranda of understanding with several departments, including the departments of Fisheries and Oceans, Transport, National Health and Welfare and National Revenue - Customs and Excise. These define the respective responsibilities under various environmental Acts, and provide a framework for accountability.

Need for specific policies, priorities and goals

11.45 We found an enforcement and compliance policy in place for the CEPA, and one being developed for the habitat protection and pollution prevention provisions of the Fisheries Act.

11.46 The Department cannot properly allocate its resources unless it has a clear basis for determining the relative importance of each individual environmental issue. However, enforcement and compliance priorities have not been established. The Department has not identified its priorities for environmental quality, or the level of regulatory compliance required to achieve it. Furthermore, the lack of enforcement priorities hampers the determination of the types and mix of skills required of enforcement personnel.

11.47 The Department introduced an annual National Inspection Plan in 1990-91, identifying the number and types of inspections to be carried out under the Canadian Environmental Protection Act, the Fisheries Act and the Transportation of Dangerous Goods Act. The Plan does not specify the required levels of compliance with the regulations. Furthermore, the Department has not assessed the effectiveness of existing regulations and of possible alternative methods to bring about compliance.

11.48 The Department should clearly define and communicate the priorities to be placed on enforcement and compliance activities and the levels of compliance required.

Need for consistency in enforcement and compliance

11.49 Documented procedures can be used to provide direction and guidance to employees and to help ensure that they carry out assigned work efficiently and in a consistent manner.

There are few procedures to guide inspectors and investigators.

11.50 The Department has few procedures to guide inspectors and investigators. It has developed an Inspector's Manual, but this is more a guide to the legislation than to procedures. It provides little direction and guidance on how to conduct inspections and investigations, how to prepare and present cases and how to collect and maintain evidence for court. Without appropriate guidance for enforcement personnel, there can be no assurance that enforcement efforts are consistent and are carried out efficiently.

11.51 The CEPA Enforcement and Compliance Policy and the report to Parliament on the administration and enforcement of the CEPA state that consistent enforcement across Canada is the Department's policy. However, departmental officials told us that they believe that enforcement is not consistent across the country.

11.52 Some departmental officials believe that several regulations under Section 36 of the Fisheries Act are unenforceable. The Department has a plan to review and correct these deficiencies. In any case, the general lack of data on enforcement and compliance makes it virtually impossible to determine whether enforcement has been carried out consistently. The Department has not evaluated the actual procedures and, as a result, has not assessed their appropriateness and consistency. Also, there is little feedback of information for management planning and control.

11.53 The Department should develop an approved set of clearly defined methods and procedures for enforcement and compliance activities, ensure that they are communicated to enforcement personnel and periodically assess their adequacy.

Information for performance evaluation is inadequate

11.54 We were unable to find sufficient data to demonstrate either the efficiency or the effectiveness of enforcement and compliance activities. Without such data the Department cannot demonstrate adequate management of its programs, or fully account to Parliament for the economy and efficiency of its activities and their results.

11.55 The Department is developing systems to provide information on the number of inspections and investigations and their results — warnings, charges and convictions. However, without related information on the number of sites requiring inspection and the time spent on enforcement and compliance tasks, it is not possible to accurately forecast resource needs.

No evaluation of the effectiveness of regulations has been done.

11.56 The Department has not evaluated the overall effectiveness of the regulations it enforces to improve environmental quality, or of its enforcement and compliance policies and plans. Furthermore, it has not defined performance standards that could assist with effectiveness measurement. As a result, the Department does not have adequate information on levels of compliance with regulations, or on the impact its enforcement and compliance activities have on environmental quality.

11.57 The Department should establish performance standards to assist in evaluating the effectiveness of regulations and of the associated enforcement and compliance activities.

Conclusion

11.58 In our opinion, the Department does not have adequate information for planning and management control. As a result, it cannot demonstrate due regard to economy and efficiency in the management of its enforcement and compliance activities. Furthermore, the Department does not know whether these activities are effective. We have been advised by the Department that it is beginning to take steps to assemble essential information on the efficiency and effectiveness of its enforcement and compliance activities.

Great Lakes Water Quality Agreement

Audit Scope and Criteria

11.59 We examined how the Department manages its responsibilities for Canada's contribution to the Great Lakes Water Quality Agreement.

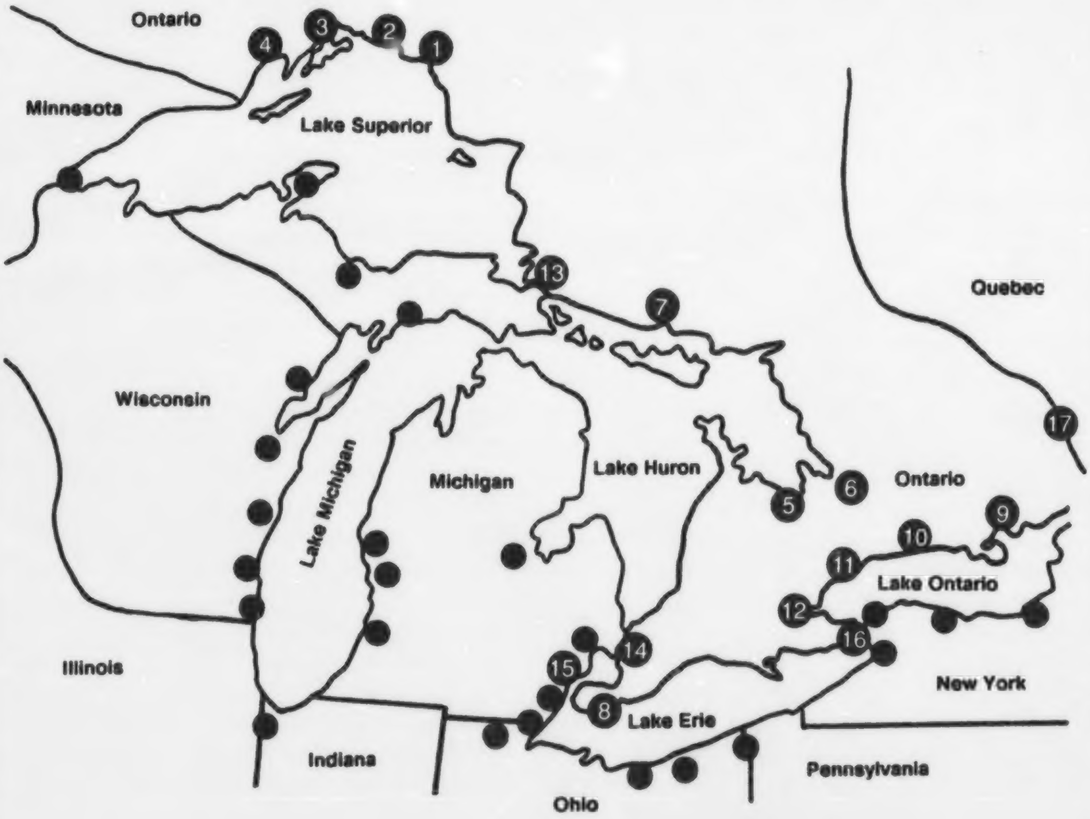
11.60 Comprehensive strategic and operational plans, and mechanisms for project development and delivery, are necessary to enable the government to economically and efficiently meet its commitments under the Agreement. Also, mechanisms for performance measurement and reporting should be in place to provide Parliament and the public with appropriate information on the achievement of the Agreement's objectives.

Background

11.61 The Great Lakes Basin ecosystem comprises the five Great Lakes and the land within their drainage areas. The lakes contain nearly 20 percent of the world's fresh water.

Exhibit 11.1

AREAS OF CONCERN IN THE GREAT LAKES BASIN


Ontario
4
3
2
1
Minnesota
Lake Superior
13
7
Quebec
Wisconsin
17
Michigan
Lake Huron
Lake Michigan
6
5
Ontario
9
10
11
Lake Ontario
12
16
14
15
Illinois
New York
8
Lake Erie
Indiana
Pennsylvania
Ohio

● CANADIAN

Lake Superior
(1) Peninsula Harbour
(2) Jackfish Bay
(3) Nipigon Bay
(4) Thunder Bay

Lake Huron
(5) Collingwood Harbour
(6) Severn Sound
(7) Spanish River Mouth

Lake Erie
(8) Wheatley Harbour

Lake Ontario
(9) Bay of Quinte
(10) Port Hope
(11) Toronto
(12) Hamilton Harbour

JOINT CANADA / US

(13) St. Marys River
(14) St. Clair River
(15) Detroit River
(16) Niagara River
(17) St. Lawrence River

● 25 U.S. SITES

Twenty-five percent of the Canadian population lives in the area, the site of one of the largest concentrations of industrial capacity in the world.

There has been some success, but much remains to be done.

11.62 Several recent reports have focussed on concerns about the seriousness of pollution in the Great Lakes and its impact on the health of people in the area. Examples include the biennial reports of the International Joint Commission, created to provide Canada and the United States with advice on boundary issues, including Great Lakes water. The fourth and fifth biennial reports, issued in 1989 and 1990 respectively, call for immediate action to control pollution and clean up the 17 Canadian "areas of concern" (Exhibit 11.1). In March 1991 the departments of the Environment, Fisheries and Oceans, and National Health and Welfare released "Toxic Chemicals in the Great Lakes and Associated Effects". This report drew attention to the health problems posed by toxic contaminants in the Great Lakes. Although there have been some successes in cleaning up the Great Lakes Basin, problems persist and much remains to be done.

11.63 The Great Lakes Water Quality Agreement (the Agreement) was signed by Canada and the United States in 1972, and was reviewed and expanded in 1978 and 1987. It commits the two countries to restoring and maintaining the chemical, physical and biological integrity of the waters of the Great Lakes Basin ecosystem.

11.64 Since 1972, a number of pollutants in the Great Lakes have been substantially reduced by co-operative programs in Canada and the United States. There has been some success at integrating and co-ordinating the efforts of different levels of government with those of industry and the public, to identify pollution problems and to design solutions. As a result, the Agreement and its implementation structure are considered by many to be a good model for countries managing shared resources.

11.65 The 1986 Canada-Ontario Agreement Respecting Great Lakes Water Quality provides for federal-provincial co-operation in implementing the Great Lakes Water Quality Agreement — necessary because much of the subject matter is under provincial jurisdiction.

11.66 Responsibility for the Agreement is shared in the federal government by the departments of the Environment, Fisheries and Oceans, Agriculture, Transport, National Health and Welfare and External Affairs. Their efforts are co-ordinated through the Interdepartmental Committee on Water, chaired by the Department of the Environment, and through several other working groups.

11.67 In 1990-91 the Department's budget for the Great Lakes Water Quality Program was approximately $17 million; the total budget for all federal departments for Great Lakes water issues was about $41 million. Annual budgets were substantially increased with the Great Lakes Action Plan in 1989 and the Great Lakes/St. Lawrence Pollution Prevention Initiative in 1991, providing for an additional $125 million over five years and $25 million over six years, respectively.

11.68 Canada, the United States and the International Joint Commission are currently examining their respective roles and responsibilities under the Great Lakes Water Quality Agreement, in preparation for formal review of the Agreement in 1992. Federal-provincial roles and responsibilities are also being examined, following the expiry of the Canada-Ontario Agreement on 31 March 1991 — since extended for six months pending negotiation of a new agreement. The timing of these reviews is critical, because the parties to the Great Lakes Water Quality Agreement are now beginning to address specific contaminated sites and sources of pollution, through individual plans developed by governments in consultation with industry and the public. A few of these plans, called Remedial Action Plans (RAPs), are now moving toward implementation. They cannot succeed without the commitment and financial support of the federal, provincial and municipal governments.

Observations and Recommendations

Weaknesses in strategic and operational planning

11.69 To guide federal departments involved in implementing the Agreement, the Department has developed an extensive planning framework comprising departmental and interdepartmental strategic and operational plans.

11.70 The continuing success of Canada's contribution to the Agreement depends on the direction supplied by strategic planning, which should be (but is not) required by the Interdepartmental Committee on Water chaired by the Department of the Environment. Existing strategic plans do not address the upcoming 1992 review of the Agreement, the expiry of the Canada-Ontario Agreement in March 1991, or the anticipated shift in focus in 1991-92 to implementation of Remedial Action Plans for badly polluted areas. These deficiencies in the strategic plans have allowed the development of operational plans with few specific goals and deadlines against which performance can be measured.

11.71 The Department should develop, in consultation with the other federal departments and the Province of Ontario, a new strategic plan for the 1990s to enable Canada to meet its overall commitments to the Great Lakes Water Quality Agreement.

Department's response: *The Department has already begun the process of developing a new strategic plan in consultation with other federal departments. This process will eventually include the province and the public through the Department's Great Lakes Action Plan Strategic Advisory Committee.*

Weaknesses in the Remedial Action Plan process

11.72 Canadian concerns about contamination in the Great Lakes Basin are addressed in a significant way through the Remedial Action Plan (RAP) process. This process includes the designation of areas of concern, the development of clean-up plans, and their implementation. It brings governments, industry and the public together in a common cause - the restoration of drinkable, swimmable and fishable water in the Great Lakes. Given the number of stakeholders, the various government jurisdictions, and the magnitude of the problems, the process is extremely difficult.

11.73 Based on studies of clean-up costs for United States' areas of concern, the Canadian RAP clean-up bill could be several billion dollars. It will require co-operation by three levels of government and other authorities. Present federal policy requires that both the resource user and the polluter pay to spread the burden of cost.

11.74 There have been problems and delays in the RAP process, in that some Stage 1 reports (Problem Definition) have not been completed according to specific deadlines. These problems could be addressed within the context of an overall strategic plan for the RAP process, which would have specific policies, goals, priorities, timetables and funding arrangements to guide the development and implementation of individual Remedial Action Plans. This framework could then form the basis for reporting to the International Joint Commission.

Department's response: *It should be noted that delays in the Stage 1 RAPs were largely out of the Department's control, given the extensive involvement of the public in the process, and the public's desire to have the Stage 1 reports as complete as possible.*

11.75 Without specific policies, goals, priorities, and timetables, there is no basis for the Department to account to Parliament or to report to the International Joint Commission on the implementation of Canada's RAPs.

11.76 The Department should develop a strategic plan for the implementation process for Remedial Action Plans (RAP), to

enable individual RAP teams to determine realistic goals and deadlines.

Department's response: *The Department is presently developing a new strategic plan for RAPs, in conjunction with the province. The plan will be reviewed by the Interdepartmental Committee on Water.*

Conclusion

11.77 We believe that the deficiencies we have noted constitute a lack of due regard to economy and efficiency in managing Canada's contribution to the Great Lakes Water Quality Agreement. Furthermore, we believe that the lack of specific goals and deadlines hampers the Department's ability to report to Parliament and to the International Joint Commission on progress made in implementing the Agreement. We note, however, that efforts have been made by the Ontario Region to address outstanding issues by bringing them to the attention of senior management and by beginning a review of strategic plans.

Accountability Reporting

Audit Scope and Criteria

11.78 We selected three reports for examination: Part III of the Estimates of the Department, for 1990-91 and 1991-92; the First Report of Canada (dated December 1988) under the 1987 Protocol to the 1978 Great Lakes Water Quality Agreement; and the first report to Parliament on the administration and enforcement of the Canadian Environmental Protection Act (dated March 1990). In our opinion, these are among the most significant accountability documents produced by the Department.

11.79 Our objective was to determine if selected public accountability documents prepared by the Department contain reliable, relevant, consistent, clear and complete information, for Parliament and the public to understand and evaluate planned and actual program performance.

Observations and Recommendations

Part III of the Estimates for 1990-91 and for 1991-92

Introduction

11.80 Part IIIs of the Estimates contain detailed information on planned and actual activities and expenditures of individual departments. Treasury Board policy states that the Part IIIs "are directed at improving the government's accountability to Parliament by providing more and better information on government programs, thereby permitting parliamentarians to carry out more effectively their reviews of expenditures."

Inadequacy of information

11.81 Treasury Board policy also states that the Part IIIs should "provide enough information to help Members of Parliament in understanding and assessing a program's planned and actual performance in terms of results and related resources." We found examples in both 1990-91 and 1991-92 of information that is sufficient and useful. For example, the Department's Part III for 1991-92 provides a clear description of the St. Lawrence Action Plan — its major components, the five-year objectives and costs for each component, and the specific current-year goals.

11.82 However, there are cases where planned and actual results are stated in such vague terms that they provide little basis for accountability. In other cases, long-term goals and budgets are stated, but current-year goals and budgets are not; for some important items, no resource figures are provided at all. There are no references in the Department's Part IIIs pointing out where this important information can be found.

Failure to compare results to plans

11.83 Accountability is more than just accounting for money spent. Those entrusted with spending the money should also account for results by comparing achievements to the original plans.

Accountability is more than accounting for money spent.

11.84 The Department's Part IIIs rarely relate actual results to plans. For example, the development and implementation of Remedial Action Plans (RAPs) for 17 badly contaminated Canadian sites is a major activity under the Great Lakes Water Quality Agreement. The 1991-92 Part III reports that five Canadian RAPs completed Stage I (Problem Definition) in 1990-91. But it provides no information on how many should have been completed and the consequences, if any, of delays. In fact, progress is significantly behind schedule. The previous Part III had projected that all 17 Remedial Action Plans would have completed Stage I in 1990-91, and that 10 of the 17 would have completed Stage II (Selection of Remedial and Regulatory Measures).

11.85 The Department should provide sufficient information in Part III of the Estimates, or a reference to where such information can be found, to assist Parliament and the public to understand and evaluate planned and actual program performance. If planned results have not been achieved, it should explain why and should estimate the consequences.

Lack of information on external factors

11.86 Many external factors can affect a department's ability to carry out its plans or to meet its objectives. Information about these factors helps Parliament judge the reasonableness of the department's objectives, its plans to achieve them and what it has actually achieved. It also helps Parliament understand the constraints under which the department operates.

11.87 In its 1990-91 Part III the Department of the Environment states, "The federal government will participate in a national program to clean up all contaminated sites in Canada." According to the document, there are approximately 1,000 contaminated sites in Canada that pose a threat to human health or the environment. Fifty of these are "orphan" sites where the polluters are unknown; cleaning them up will require direct government intervention. For the remaining sites, "the responsible parties are known and will be responsible for clean-up at their own expense." The 1990-91 Part III reports that the Department's share of the clean-up costs will be $150 million over five years.

11.88 The document fails to point out several constraints to the likely success of this program. Not all contaminated sites have been identified. The actual costs of cleaning up contaminated sites are not known. (However, the United States Environmental Protection Agency estimates that it will cost US $20 to $40 million per site for cleaning up in its jurisdiction.) The number of orphan sites could increase significantly if owners declare bankruptcy and abandon their properties, rather than cleaning them up. The Part III also fails to note that there may not be adequate facilities to safely store or destroy all the toxic substances removed from the sites.

11.89 With so many constraints and uncertainties, it is not clear that all the contaminated sites will be cleaned up in five years, or that $150 million will meet the federal share of the costs. If Parliament and the public are not aware of these constraints, they may believe that $150 million and five years are firmer figures than the circumstances warrant.

11.90 The Department should provide information in Part III of the Estimates on significant constraints to achieving program objectives, and should project only results that can feasibly be achieved with the resources requested.

Conclusion

11.91 We found that Part III of the Estimates provides reliable, relevant, consistent, clear and complete information about some of the Department's activities. Unfortunately, we also found cases where it does not. The

Department's Part IIIs could be excellent accountability and information documents if the whole were as well prepared as some of the parts. Until the Department achieves that consistency, its Part IIIs must be considered no more than adequate.

Part IIIs are no more than adequate.

11.92 Generally, the information in the Part III for 1991-92 was more informative and more complete than for 1990-91. This reflects the Department's efforts to improve its presentation of information.

The Reports of Canada Under the 1987 Protocol to the 1978 Great Lakes Water Quality Agreement

Introduction

11.93 Canada and the United States, according to the 1987 Protocol, must report publicly every two years to the International Joint Commission on progress toward achieving specific objectives, listed in certain annexes to the Agreement. We reviewed Canada's first Report, dated December 1988, and a draft of the 1990 Report. Both reports were prepared jointly with the Province of Ontario.

Lack of information on results

11.94 We found the 1988 Report to the International Joint Commission on the Great Lakes Water Quality Agreement to be inadequate, both as an information and a public accountability document. The report was difficult to read and understand. The information about achievements against specific objectives of the Great Lakes Water Quality Agreement was incomplete. Most important, the report failed to show what progress was being made toward eliminating toxic substances from the Great Lakes.

Improvement in reporting

11.95 We noted improvements in the draft of the 1990 Report, which details progress to 31 December 1990. It is in two parts, an issues overview and a technical summary, which allows for reporting to two audiences. The writing style is much easier to read than the 1988 Report and technical jargon is kept to a minimum. One particularly useful feature of the later report is that it provides names, addresses and telephone numbers of officials who can provide further information on selected issues.

11.96 Despite the improvements noted, the 1990 draft Report suffers from the same major failing as the 1988 Report. It does not provide an indication of whether the overall objectives of the agreement are being met. It reports extensively on research, studies and consultations. It reports that Remedial Action Plans are being developed and that laws and regulations are being written. However, it fails to show what progress is being made toward eliminating toxic substances in the Great Lakes.

What About the Fish and Beaches?

Work under the Great Lakes Water Quality Agreement is supposed to restore and protect "beneficial uses" in the areas of concern. Benefits include the re-opening of beaches and the ability to eat fish and wildlife. Public accountability means that the public has a right to know what progress is being made. How many beaches will be re-opened for public use, and when? When will the advisories on fish consumption be lifted?

11.97 Canada's report on the Great Lakes Water Quality Agreement should indicate the progress that has been made in achieving the overall objectives of the Agreement.

Department's response: *The Department has recognized the need for a results-oriented Parties report, and has undertaken the necessary planning to ensure that future reports are results-oriented.*

The Report to Parliament on the Administration and Enforcement of the Canadian Environmental Protection Act (CEPA)

Introduction

11.98 The CEPA requires that the Department submit an annual report to Parliament on its administration and enforcement of the Act. The Minister presented the first "annual" report in December 1990. It covers the 21-month period from Proclamation of the Act on 30 June 1988 to 31 March 1990. The report states that this Act is "the cornerstone of federal environmental legislation."

A clearly written document

11.99 The CEPA report is clearly written, in plain language. It is well organized and easy to follow. Unfortunately, some essential information is missing, and there are no guides as to where it can be found. Other information could be misleading.

Lack of information

11.100 The Canadian Environmental Protection Act is a comprehensive piece of legislation dealing with several aspects of environmental protection. In its report the Department does not address all important parts of the Act, concentrating instead on three elements: toxic waste, ocean dumping and enforcement. The report says nothing about two other important parts of the Act, those dealing with nutrients and international air pollution. Furthermore, it does not explain these omissions. The reader does not know whether the subjects are not important or whether the Department has not yet decided to do something about them.

11.101 Some information that is included leaves the reader with more questions than answers. The report states that over 5,800 inspections have been carried out in the first year and a half of CEPA's operation. That number is meaningless if the reader is not told how many inspections are needed to safeguard the environment and human life and health. The report states that there were more than 300 cases (5.5 percent) of non-compliance. Was the non-compliance serious? Was it due to accident or negligence? Most important, what is the effect of the non-compliance on human health and the environment? The report does not answer any of these questions.

Some information leaves the reader with more questions than answers.

Incomplete or selective information could be misleading

11.102 Why is it important to have complete information? Even information that is accurate or correct can give a misleading picture if important parts of the information are not reported. Parliament and the public deserve to have the whole picture so that they can make their own judgments. The following examples show why.

11.103 Does the report overstate the actual level of penalties likely to be meted out to CEPA offenders? The text of the report gives the impression that penalties are severe, that the Act is tough on offenders. It states that the minimum penalty for offenders is a $200,000 fine and a six-month jail term. These are, in fact, the maximum penalties under most sections of the Act, not the minimum penalties. Appendix I to the report reveals that actual penalties are much milder than the report implies. During the 21 months covered by the report, only five companies or individuals were successfully prosecuted on nine charges. The average fine under each of the nine charges was less than $3,000. The minimum fine reported was $500.

11.104 Will the 44 priority substances be assessed before the deadline? The report devotes considerable space to the 44 substances that most urgently require assessment of their effects on human health and the environment. It states that the deadline for assessing the substances is 11 February 1994. It does not mention that many of the substances were originally scheduled by the Department to be assessed well before that date. Furthermore, the report does not indicate that the Department is behind its original schedule and may even find it difficult to meet the revised target dates. The report does not provide any information about the possible environmental consequences of not meeting the deadline.

11.105 Is the CEPA compliance and enforcement policy working? As noted in paragraphs 11.39 to 11.58 of this chapter, there are serious deficiencies in administering the Department's enforcement and compliance policy. Despite these deficiencies, the report gives the impression that the policy is effective and that environmental regulations under the CEPA are being adequately enforced.

11.106 Leaving out essential information and downplaying problems in meeting deadlines or enforcing regulations can have a serious impact on the message of the report. The reader can get an impression of a situation that is significantly at odds with the facts.

11.107 The Department should provide in the report all the significant information the reader needs to understand the extent of the problems and their potential consequences, and the extent to which the Department is addressing them. The report should state what additional information is available and where it can be obtained.

Is the Canadian Environmental Protection Act protecting the environment and human health?

11.108 The Canadian Environmental Protection Act (CEPA) describes itself as "an Act respecting the protection of the environment and of human life and health." The CEPA report does not state this major objective or explain how the various activities under the Act contribute to achieving it.

11.109 The Department should report on how the Canadian Environmental Protection Act is achieving its overall objective of protecting the environment and human life and health.

Conclusion

11.110 Although we found that this report was well organized and clearly written, in our opinion it is not nearly as useful as it could be. It does not report on how the Act contributes to the protection of the environment and of human life and health. The information provided is selective and often incomplete. We believe that the December 1990 CEPA report is inadequate as an accountability and information document.

***Department's response**: The Department has made changes to the 1990-91 CEPA Annual Report which address the concerns of incomplete information and environmental results.*

Accountability to Parliament Remains a Problem

11.111 In Chapter One of his 1990 Report, the Auditor General recommended that the government devise acceptable means of being held to account for the discharge of its environmental responsibilities. This would entail clearly determining who is accountable for what at the various levels of government, and how the federal government would report to Parliament on the extent to which it had met its responsibilities. No such clarification has yet been made. We continue to find weaknesses in the Department of the Environment's ability to account to Parliament for its success or failure at meeting its objectives.

Chapter 12

Department of External Affairs
Membership Payments to International Organizations

Department of External Affairs

Membership Payments to International Organizations

Main Points

12.1 The Department views multilateral co-operation as central to Canada's foreign policy objectives. In its commitment to multilateral co-operation Canada has, over the years, adopted the practice of joining most international organizations, such as the United Nations and its affiliated agencies, and participating in most international forums. On a per capita basis, Canada contributes more to international organizations than most other developed countries (paragraphs 12.5 to 12.7).

12.2 Every year competition for public funds increases and the need for funds to finance additional activities expands. New global issues emerge while many existing problems remain unresolved. The Department's management of multilateral activities will have to be more businesslike. Current fiscal realities are calling for hard choices (12.86).

12.3 The capacity for informed decision making by the Department, and Parliament, would be enhanced by the following changes in the way multilateral activities are managed and reported:

- articulating foreign policy objectives and priorities more clearly as they relate to participation in multilateral activities, and improving planning of operations (12.23 to 12.30);

- "standing back" and assessing on a periodic basis whether, or how well, memberships in international organizations are meeting Canada's foreign policy objectives. Departmental officials told us that they are now raising questions about certain aspects and programs of some international organizations, such as the International Labour Organization and the Food and Agriculture Organization (12.31 to 12.40);

- developing a more innovative approach to effecting administrative reform at certain UN organizations, which have not changed substantially in spite of sustained efforts by Canada over many years, both alone and with other developed countries (12.41 to 12.62);

Main Points (cont'd)

- clarifying co-ordinating responsibility and relationships with other participating departments (12.63 to 12.76); and
- giving Parliament better information to justify resource utilization for multilateral activities and build a stronger consensus about Canada's role, foreign policy objectives and choice of options for program delivery (12.77 to 12.84).

12.4 The Department can learn from its long-standing and extensive participation in international organizations. Implementing the changes we recommend would enhance the value Canada derives from its participation in international organizations. For example, Canada could contribute, in partnership with other countries, to bringing about a better managed UN system (12.85).

Table of Contents

	Paragraph
Introduction	12.5
Multilateral co-operation is a key element in Canada's foreign policy (12.5)	
Background	
The Department's Multilateral Mandate	12.8
Canadian Management of Membership	12.11
Audit Objective, Scope and Approach	12.16
Observations and Recommendations	
Departmental Management Deficiencies	12.23
The Department has not given sufficient attention to known deficiencies (12.23)	
Relevance and Benefits of Memberships	12.31
Periodic departmental assessments of Canada's memberships in international organizations are needed (12.31)	
Efforts to Reform the UN System	12.41
Sustained efforts over many years have led to little substantive change (12.41)	
Deficiencies in management practices may inhibit achievement of results (12.47)	
The Department's approach to reform needs to be re-examined (12.58)	
Accountability for Canada's Performance	12.63
Co-ordinating responsibility and relationships with other participating departments need clarification (12.63)	
Information to Parliament	12.77
The basis for parliamentary scrutiny of Canada's multilateral expenditures and activities is weak (12.77)	
Conclusion	12.85

Table of Contents (cont'd)

Exhibits

12.1 Payments to International Organizations by the Canadian Government
12.2 Multilateral Activities are Conducted by Several Branches at Headquarters, and by Missions
12.3 Membership Payments to International Organizations Within the Scope of this Audit
12.4 The United Nations System
12.5 Efforts to Reform the UN System
12.6 Accountability for Performance is Diffused

Department of External Affairs

Membership Payments to International Organizations

Introduction

Multilateral co-operation is a key element in Canada's foreign policy

12.5 Multilateral co-operation is widely regarded as an effective way of dealing with issues and problems that transcend national jurisdictions. In recent years, the world has seen an increased global interdependency and an unprecedented institutionalization of intergovernmental co-operation.

12.6 Traditionally, Canada has been an active participant in international forums and organizations, and has been scrupulous in maintaining its obligations to them. Indeed, the Department of External Affairs considers multilateral co-operation as central to the discharge of Canada's foreign policy objectives. It has held the view that Canada's influence in world affairs, as a middle power, can best be achieved by working with other countries, on a multilateral basis, on issues of global interest. As new issues arise, it is Canada's stated intention to continue to conduct an active and independent foreign policy that will emphasize constructive internationalism.

12.7 The government has stated its commitment to multilateral co-operation and perceives it as an effective way of fulfilling foreign policy and other objectives. It has adopted, over the years, the practice of being a member of most international organizations and participating in most international forums. As a country with a large GNP and a relatively small population, Canada contributes more to international organizations, on a per capita basis, than most developed countries.

Background

The Department's Multilateral Mandate

12.8 The Department of External Affairs Act gives the Department the powers and duty to conduct the external affairs of Canada. Under the Act, the Secretary of State for External Affairs is required to "conduct all official communications between the Government of Canada and...any international organization," and "conduct and manage international negotiations as they relate to Canada". There is no requirement for the government to obtain the authorization of Parliament before joining an international organization. Usually, when Canada joins an international organization, the Secretary of State for External Affairs obtains an order-in-council to "execute and issue an Instrument of Acceptance of the Constitution" of the organization. However, authority to make payments to organizations must come from Parliament, through appropriation Acts.

12.9 The relationship between Canada, as a member country, and international organizations is governed by the organizations' constitutions, defining their purpose and specifying their arrangements for administration and management. A single member's ability to influence a particular organization, or the United Nations (UN) system as a whole, is limited. The Department also has no discretion over the amount it will pay for membership in an international organization. This is dependent on the organization's budget and the formula, agreed on by member countries, determining each member's assessed share. Other departments and agencies also make payments to international organizations, mostly on a voluntary basis (see Exhibit 12.1). The scope of this audit, set out in paragraph 12.17, focusses on management practices at External Affairs where membership payments are made by the Department.

12.10 In addition to the Department of External Affairs, many other government departments and agencies are involved in multilateral activities. The Department takes the position that it is accountable for "high quality Canadian participation" in all multilateral activities. In assuming this role, it has to rely on other departments and agencies which deal with programs within their spheres of expertise.

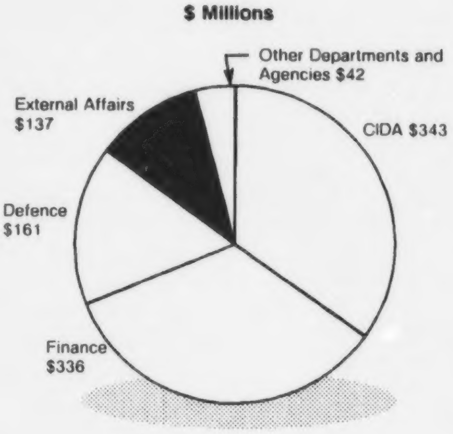
Canadian Management of Membership

12.11 Multilateral matters are managed within the Department's main single program, "Canadian Interests Abroad", which groups all departmental activities but one. The program's overall objective is "to carry out Canada's foreign policy and in particular to promote in their international dimension the national objectives of economic growth, including trade development, peace and security, Canadian sovereignty and national identity, social justice ...."

12.12 Within External Affairs, multilateral activities are conducted by a number of branches at headquarters and by missions abroad. Some of these, such as Canada's permanent missions to the United Nations in New York and Geneva, are dedicated to multilateral affairs (see Exhibit 12.2). In 1991-92, the Department's budget for membership payments to international organizations, excluding NATO and UN peacekeeping activities, is estimated at $128.9 million (Exhibit 12.3). Canada's share of these organizations' budgets varies from approximately 3 percent in the UN system to over 25 percent in certain smaller organizations. There are also operating costs incurred by External Affairs in conducting multilateral activities. Based on most recent departmental figures, we estimate that these amounted to some $37 million in 1989-90. This includes salaries and benefits for about 55 persons at headquarters in Ottawa and 60 at permanent missions abroad, as well as conference attendance costs and operating expenses.

Exhibit 12.1

PAYMENTS TO
INTERNATIONAL ORGANIZATIONS
BY THE CANADIAN GOVERNMENT
Year ended 31 March 1990



Total $1,019

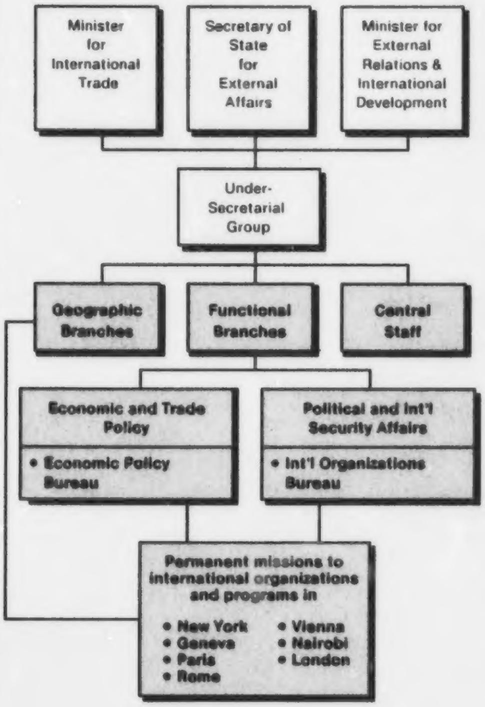
Note:
In addition, subscriptions, loans and advances to international organizations, including financial institutions, amounted to $6.2 billion; and the estimated value of callable shares, commitments and guarantees amounted to $14.4 billion as of 31 March 1990.

Source: 1989-90 Public Accounts

12.13 Canada subscribes to a large number of organizations whose members are primarily governments of sovereign states. These international organizations vary from universal bodies such as the United Nations, and linguistic and political groups such as the Commonwealth and La Francophonie, to regional bodies such as the Organization of American States. Although each organization has its own purpose, membership, size and culture, almost all are structured and operate according to the same basic management principles, for example as to their governance.

Exhibit 12.2

MULTILATERAL ACTIVITIES ARE CONDUCTED BY SEVERAL BRANCHES AT HEADQUARTERS, AND BY MISSIONS


Minister for International Trade
Secretary of State for External Affairs
Minister for External Relations & International Development
Under-Secretarial Group
Geographic Branches
Functional Branches
Central Staff
Economic and Trade Policy
• Economic Policy Bureau
Political and Int'l Security Affairs
• Int'l Organizations Bureau
Permanent missions to international organizations and programs in
• New York
• Geneva
• Paris
• Rome
• Vienna
• Nairobi
• London

Source: 1991-92 Estimates

12.14 As a member of international organizations, Canada participates extensively in many forums. These include regular conferences, like the UN General Assembly held annually in New York, and conferences of the various UN Specialized Agencies such as the World Health Organization. In 1989 alone, 220 such conferences within the UN system took place. Canadian representatives frequently participate as members of organizations' governing bodies or executive boards.

12.15 The Department describes the key functions of Canadian management with respect to multilateral activities as developing and co-ordinating the delivery of foreign policy, managing institutional relations, and overseeing the efficient use of funds by recipient organizations. The Department normally represents Canada at UN meetings in New York, and frequently in the more technical agencies, particularly when political issues have to be dealt with. We observed that headquarters is mainly responsible for co-ordinating the preparation of briefing reports and position papers for the guidance of Canadian delegations at conferences and meetings, and for approving the list of delegates from various federal government departments, other levels of government, universities and other institutions. It also invites observers to Canadian delegations, including Members of Parliament. Missions abroad maintain relations with institutions and with foreign delegations at the UN and other bodies, both on a formal and informal basis.

Audit Objective, Scope and Approach

12.16 Our aim was to promote accountability for, and parliamentary scrutiny of, the activities, expenditures and results associated with delivering Canada's foreign policy through multilateral channels.

12.17 We audited the management practices used by the Department of External Affairs, and its accountability for membership payments to international organizations (shown in Exhibit 12.3) and related operating costs in conducting multilateral activities. In order to determine if there were satisfactory procedures for measuring and reporting on effectiveness, we examined whether and how the Department assesses the benefits that Canada receives from membership in international organizations, along with other related outcomes. We also examined whether it communicates these in such a way as to permit public scrutiny and debate on the value of this channel of program delivery relative to other possible options.

12.18 We examined reports by international organizations on their financial and operating

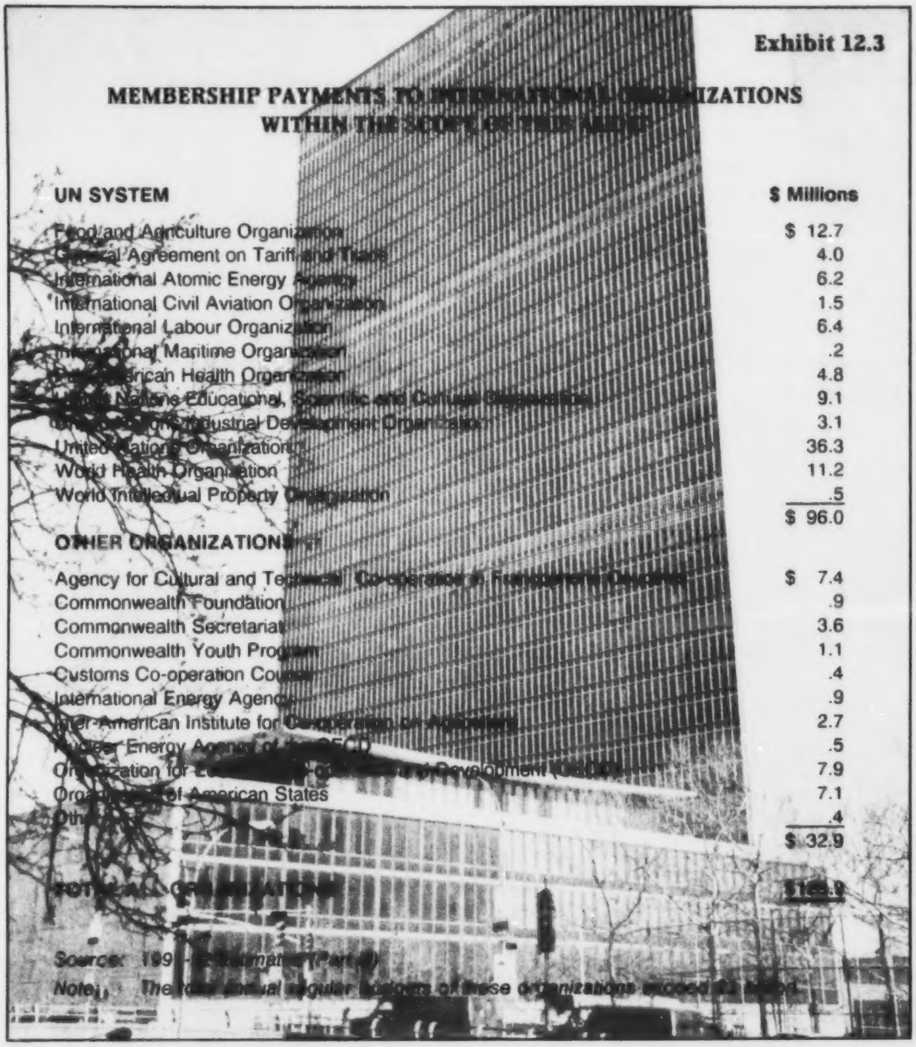


Exhibit 12.3

MEMBERSHIP PAYMENTS TO INTERNATIONAL ORGANIZATIONS WITHIN THE SCOPE OF THIS AUDIT

UN SYSTEM	**$ Millions**
Food and Agriculture Organization	$ 12.7
General Agreement on Tariffs and Trade	4.0
International Atomic Energy Agency	6.2
International Civil Aviation Organization	1.5
International Labour Organization	6.4
International Maritime Organization	.2
Pan American Health Organization	4.8
United Nations Educational, Scientific and Cultural Organization	9.1
United Nations Industrial Development Organization	3.1
United Nations Organization	36.3
World Health Organization	11.2
World Intellectual Property Organization	.5
	$ 96.0
OTHER ORGANIZATIONS(1)	
Agency for Cultural and Technical Co-operation in Francophone Countries	$ 7.4
Commonwealth Foundation	.9
Commonwealth Secretariat	3.6
Commonwealth Youth Program	1.1
Customs Co-operation Council	.4
International Energy Agency	.9
Inter-American Institute for Cooperation on Agriculture	2.7
Nuclear Energy Agency of the OECD	.5
Organization for Economic Co-operation and Development (OECD)	7.9
Organization of American States	7.1
Other	.4
	$ 32.9
TOTAL ALL ORGANIZATIONS	**$128.9**

Source: 199[illegible] Estimates (Part III)

Note(1) The total annual regular budgets of these organizations exceed [illegible]

status and other administrative matters, minutes of their conferences and meetings, the Department's records on multilateral activity, and authoritative studies and reports in the multilateral field, including audits and inspections by some other countries. We interviewed foreign service officers in Ottawa and at two major permanent missions to international organizations, officials in certain UN organizations, and a selected number of representatives of other member countries. We also attended interdepartmental committee meetings. We did not audit the efficiency and effectiveness of the international organizations funded by Canada.

12.19 While we excluded from our scope the multilateral activities of other departments and agencies, we comment on External Affairs' administrative arrangements for co-ordination because of its central role in discharging Canada's foreign policy. In this context, we interviewed officials in certain participating departments.

12.20 We recognize that the Department's management practices for delivering foreign policy through multilateral channels have to be examined from the perspective of current fiscal realities and growing financial restraint.

12.21 In 1988, External Affairs' Internal Audit reported on the management of grants and contributions, including membership payments to international organizations. We reviewed the work carried out by Internal Audit, and our audit work confirmed the validity of many of its findings. We could not build on program evaluations, as the Department had not examined the effectiveness of its activities in the multilateral field. Nor could we rely on a departmental Corporate Review, a 1990 ad hoc exercise, because it did not cover payments to international organizations in any depth.

12.22 We plan to report in future years on the management practices associated with payments to international organizations by other departments and agencies. Next year, we will report on payments to multilateral development banks by the Canadian International Development Agency and the Department of Finance.

Observations and Recommendations

Departmental Management Deficiencies

The Department has not given sufficient attention to known deficiencies

12.23 Important issues relating to the management of multilateral activities, raised by departmental internal audits and other reviews, have not been given sufficient attention. These include the need to clearly articulate objectives and priorities, and to improve planning.

12.24 We expected departmental management to have acted on the deficiencies identified by internal audits and other reviews on a timely basis.

12.25 We found that management has not acted on the 1988 recommendations of Internal Audit. The Department has not stated its reasons for not addressing these recommendations, nor has Internal Audit followed up on the lack of timely action. Other studies have also noted the lack of clearly articulated objectives, priorities and management policies for multilateral activities. The Department's recent resource reviews and the ad hoc Corporate Review exercise of 1990 stressed the necessity to strengthen planning and priority setting at the missions, a theme we have repeatedly reported on, including in our 1989 Report.

The need to articulate objectives and priorities more clearly and to improve planning has been identified within the Department.

12.26 Our audit work confirms that the following significant issues dealing with the management of multilateral payments and activities, raised by Internal Audit, have yet to be addressed:

- the need to set clear objectives in operational terms and assess effectiveness;
- the need for a departmental administrative policy relating to the management of payments to international organizations;
- the need for guidance to officers on the use of information received from recipient organizations;
- the feasibility of transferring responsibility for funding some international organizations to other government departments; and
- the need to establish a system for monitoring and following up action taken or reforms implemented in the UN administrative and budget systems.

12.27 Internal Audit emphasized the need to clarify policies and enhance control requirements, because administrative responsibility was divided among the Department's various branches and other departments and agencies. Rotational foreign service officers taking up duty did not understand the process of managing the membership payments, the roles and responsibilities of the many actors involved, or where to seek assistance. Moreover, there was no basic information source, instruction or guidance provided by management for personnel assigned to administer such payments.

12.28 In March 1988 the Department's Audit and Evaluation Committee endorsed the findings and recommendations of the Internal Audit report, discussing in particular whether External Affairs should retain administrative responsibility for making membership payments to international organizations or transfer this responsibility to other government departments and agencies. It was agreed that the managers concerned would review whether the benefits justify the costs of continuing to administer these payments, or if departmental objectives could be met in a less costly way, through the rationalized delivery methods recommended by the auditors. However, we found that no such review had taken place.

12.29 We believe that, by not addressing known deficiencies, the Department is missing an opportunity to strengthen its capacity for strategic decision making and adopt a more businesslike approach to the management of multilateral activities.

12.30 The Department should ensure that:

- **managers address known deficiencies in the management of multilateral activities, including acting on recommendations resulting from internal audits and reviews endorsed by its Audit and Evaluation Committee; and**
- **Internal Audit follows up on the implementation of these recommendations.**

Department's response: *We agree.*

Relevance and Benefits of Memberships

Periodic departmental assessments of Canada's memberships in international organizations are needed

12.31 Canada has joined numerous international organizations over the years. The changing international environment, the emergence of new global issues and the financial constraints the Department is facing make it important to assess periodically the continuing relevance and benefits of memberships and of participating in the various aspects of multilateral co-operation. Such assessments can assist in improving policy formulation, making informed decisions, changing program direction, clarifying objectives and determining the relative priorities of programs and activities.

Information on the benefits received and objectives met is essential for decisions on the nature and extent of the Department's participation in the various aspects of multilateral co-operation.

12.32 We expected that the Department of External Affairs would clearly articulate its objectives for memberships and participation in international organizations. We also expected it would periodically "stand back" and assess and report on the benefits derived from, and the continuing relevance of, its memberships in relation to stated objectives. This would include both positive and negative effects, as well as unintended consequences, if any.

12.33 We found that the Department lacks the information it requires to assess how well Canada's memberships in international organizations are meeting foreign policy objectives or whether these organizations or their activities continue to be relevant to Canada. First, departmental objectives for multilateral activities are not clearly articulated.

Second, it has not identified the benefits expected from its memberships in international organizations or assessed how effective or relevant the memberships are in achieving Canada's foreign policy and other objectives. The Canadian mission to the UN in Geneva reports the risk that some organizations are less relevant to Canada today than when we joined them. Within the Department, officials told us that they are now raising questions, from a foreign policy perspective, about the continuing relevance to Canada of certain aspects and programs of some international organizations, such as the International Labour Organization and the Food and Agriculture Organization.

12.34 The Department states that it assesses its performance, in an informal way, through regular activities such as preparing briefings for delegates to conferences and delegates' feedback in the form of frequent telexes and final reports. While these activities play an important role in ongoing management and policy development, they do not attempt to formally assess the benefits accruing to Canada or compare them with objectives, to decide on the nature and extent of participation in the various aspects of multilateral co-operation.

12.35 We believe that clarifying departmental objectives, identifying expectations and maintaining data on actual benefits to Canada would be reasonable and appropriate for its main activities in the multilateral field. Consideration should also be given to unintended effects, both positive and negative.

12.36 The Department could begin by clearly articulating Canada's foreign policy objectives with regard to multilateral activities. It could then assess the extent to which multilateral activities are furthering these objectives. This would be done for departmental activities related to those organizations that are receiving large amounts of funds, or those perceived as most relevant to, or becoming marginal to, Canada's objectives. We recognize that conducting assessments of multilateral activities will require knowledgeable personnel who are prepared to make judgments objectively and on a timely basis.

12.37 An important element in such an assessment would be gathering and analyzing the information coming from the international organizations themselves. We observed that the Department does not receive the kind of reports necessary to provide sufficient assurance from organizations on the results achieved and objectives met. Access to evaluation outputs prepared by the organizations would be necessary. A recent study in Sweden concluded that evaluation systems within the international organizations should be strengthened, and evaluations better used by the Swedish administration. In the United States, a General Accounting Office study on the UN internal evaluation system concluded that, through independent assessments of UN development programs, U.S. managers were in a position to make decisions regarding U.S. participation in these programs.

12.38 A periodic assessment of multilateral activities and memberships in international organizations would enable the Department to answer such key questions as:

- What value is placed by Canada on the nature and extent of its participation in the organization?
- Are each organization's objectives and activities still relevant to Canadian foreign policy and other objectives? What role should Canada play in the organization? Are the benefits received meeting Canada's objectives?
- Does each organization meet its own objectives and purposes? Is it equipped to meet the challenges of the 1990s?
- Are there unanticipated effects as a result of memberships and participation?

12.39 At a time when the Department is facing growing resource constraints, the availability of information on benefits accruing to Canada and on the degree of achievement of objectives is essential. It would put the Department in a strong position to develop appropriate criteria for making informed decisions on how to allocate its resources and on the nature and extent of its participation in the various aspects of multilateral co-operation.

12.40 The Department should:

- **more clearly articulate Canada's foreign policy objectives with respect to multilateral activities;**
- **identify and collect information on the benefits accruing, as well as any unintended effects;**
- **assess, on a periodic basis, whether its multilateral objectives are being met; and**
- **make decisions, using this information, on the nature and extent of its participation in the various aspects of multilateral co-operation.**

***Department's response**: We agree. However, because of long-standing resource restraint, we have not been able to evaluate fully, on an independent and periodic basis, how international organizations are meeting Canada's foreign policy objectives and management concerns. Membership in international organizations is a given that follows established government policy. In the final analysis, membership rests on the importance to Canada of being able to participate in decisions that affect Canadian interests.*

Efforts to Reform the UN System

Sustained efforts over many years have led to little substantive change

12.41 The Department has been making significant efforts to seek administrative and financial management improvements at certain United Nations organizations without being able to clearly foresee demonstrable results within a reasonable period of time.

12.42 Canada has repeatedly gone on record as supporting efforts to improve the administrative and financial functioning of the United Nations system. External Affairs' management believes that an efficient and effective UN system is very important to finding solutions to global problems. For many years, it has made commitments to help effect administrative reform "from within" the UN itself and certain of its specialized agencies that are reported to be mismanaged and inefficient.

12.43 We expected that such efforts would be directed to activities where results could be identified and achieved within a reasonable period of time. We looked for specific achievements that would demonstrate the success of Canada's efforts, alone or with other countries.

12.44 We examined Canadian efforts in four major international organizations: the United Nations Organization, the World Health Organization, the International Labour Organization and the Food and Agriculture Organization. The 1992 membership payments to these organizations are estimated at $66.6 million or 52 percent of the total payments within the scope of this audit.

The Department's approach to effecting administrative reform at certain UN organizations needs to be re-examined.

12.45 We recognize the Department's commitment over several years to effecting reform in a number of agencies and across the system. Our examination of the reports relating to the UN organizations and interviews with certain of their officials, as well as a number of representatives of other member countries, indicate that there was little substantive change. In addition, the Department could not provide evidence that substantive improvement had been achieved. While it is possible that the reform efforts may have prevented further deterioration of the administration of certain UN organizations, we remain concerned because waste and inefficiencies continue to be reported. Many audit, evaluation and inspection reports on the UN system include observations and recommendations on the same major deficiencies year after year. Much needs to be done by member countries and management to improve the administration of certain UN organizations and agencies. The Department of External Affairs is also increasingly concerned by this situation. A new Secretary-General of the UN is to be appointed shortly. There is a view evolving in the Department that an opportunity to set priorities for improved management at the UN system exists at this time.

12.46 The main financial problems of the UN system are yet to be resolved, including the recurring budgetary crisis as a result of arrears in members' contributions. For example, although there were some staff cutbacks and administrative changes in the UN Organization, there is no evidence of significant changes to the UN's key personnel policies and practices. Furthermore, the Secretary-General acknowledged in April 1990 that "...insufficient reform has taken place in the overall structure..." of the UN system. Another example is the lack of any substantive administrative change at the Food and Agriculture Organization, although in 1989 there was a consensus among member countries on a reform package for the organization.

Deficiencies in management practices may inhibit achievement of results

12.47 A number of factors are impeding the achievement of results, many of which are outside the Department's control. For example, the nature of the UN system, which is complex (Exhibit 12.4), and characterized as slow, highly politicized, unwieldy and lacking in incentives for reform. There are also limitations on an individual member's ability to effect significant change, either alone or with representatives of other major contributors.

12.48 Other factors inhibiting achievement relate to deficiencies in the Department's management practices for multilateral activities. The most important of these are: spreading its resources thinly by maintaining a presence in most UN forums and committees; lacking specialized skills in financial and budgetary matters; and working primarily with groups that include representatives of developed countries only.

12.49 **The Department has not focussed its efforts.** The Department participates in many forums and deals with numerous issues without clearly stated priorities. An example is its active participation in international efforts to improve the administration of the United Nations system.

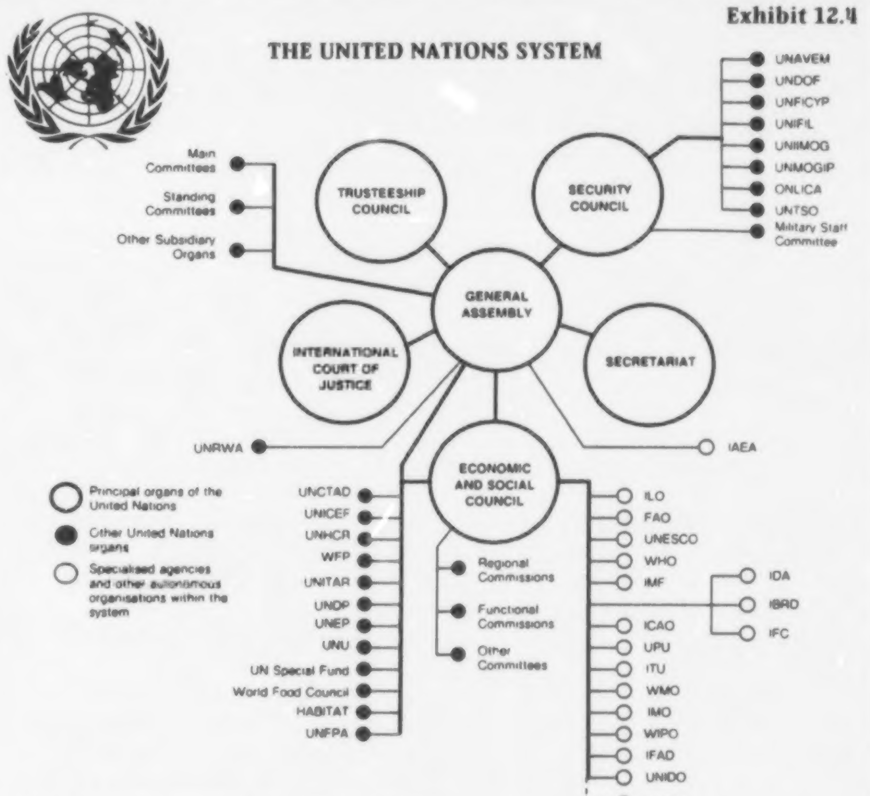
12.50 Efforts have been made by Canadian representatives, at least during the past five years, to effect changes which they perceived as required to improve the administration of the UN system. They have participated in numerous discussions and debates relating to the structure, procedures, co-ordination, and administrative and financial functioning of the UN system. These took place in many forums, such as the General Assembly, the Fifth Committee, the Economic and Social Council, the Advisory Committee on Administrative and Budgetary Questions, the Committee for Programme and Coordination, and the Governing Council of the United Nations Development Program.

12.51 In many of these forums, the Department had not adequately determined what the Canadian priorities were and where efforts should be directed. As a result, the Canadian representatives were left to react, as they saw fit, to most of the points on the agendas of organizations' conferences and meetings without being given guidance on selecting those that should be pursued in depth. For example, the large amount of time spent on procedural matters could be reduced.

12.52 **Lack of financial and budgetary skills.** The Department has also attempted to improve the budgeting process in the UN specialized agencies. In 1987, foreign service officers with limited financial and budgetary skills developed a set of proposals (the "Blue Book") aimed at resolving financial and budgetary problems facing the agencies.

12.53 The Blue Book proposals have not been adopted. Most of the problems identified as needing reform, such as the lack of

Exhibit 12.4


THE UNITED NATIONS SYSTEM
Main Committees
Standing Committees
Other Subsidiary Organs
TRUSTEESHIP COUNCIL
SECURITY COUNCIL
UNAVEM
UNDOF
UNFICYP
UNIFIL
UNIIMOG
UNMOGIP
ONLICA
UNTSO
Military Staff Committee
GENERAL ASSEMBLY
INTERNATIONAL COURT OF JUSTICE
SECRETARIAT
UNRWA
IAEA
ECONOMIC AND SOCIAL COUNCIL
Principal organs of the United Nations
Other United Nations organs
Specialised agencies and other autonomous organisations within the system
UNCTAD
UNICEF
UNHCR
WFP
UNITAR
UNDP
UNEP
UNU
UN Special Fund
World Food Council
HABITAT
UNFPA
Regional Commissions
Functional Commissions
Other Committees
ILO
FAO
UNESCO
WHO
IMF
IDA
IBRD
IFC
ICAO
UPU
ITU
WMO
IMO
WIPO
IFAD
UNIDO
GATT

For more information use United Nations Handbook, 1990

Simplified diagram of the complex UN system.

information on activities and outputs of the organizations and the late payment of assessed contributions, remain unchanged.

12.54 In our opinion, the Blue Book attempted to treat the symptoms without looking at the fundamental causes of the problems. Its technical shortcomings outweighed its merits, and there was no strategy for implementation. It was left to the initiative of individual Canadian foreign service officers, who have limited expertise in financial and budgetary matters, to use the Blue Book as they saw fit.

12.55 A study by experts concludes that "the most likely reason offered for the general lack of acceptance of the Blue Book was that it was too technical and detailed to generate the political energy needed at a high level to promote such initiatives".

12.56 **Working with developing countries would enhance reform objectives.** For many years Canada has actively pursued reform of the UN specialized agencies, working closely with countries that have similar concerns. For example, Canada participates in the deliberations of the "Geneva Group" of developed countries, each of which contributes at least one percent of the specialized agencies' budgets. The Group addresses financial and administrative issues in these agencies. A similar group, the "Camberly Group", formed in 1986 to co-ordinate efforts toward reforming the Food and Agriculture Organization, is made up of 13 countries whose funding represented some 80 percent of the Organization's budget.

12.57 The Department has recognized the need for broader alliances and the limitations of working with the Geneva Group alone. The

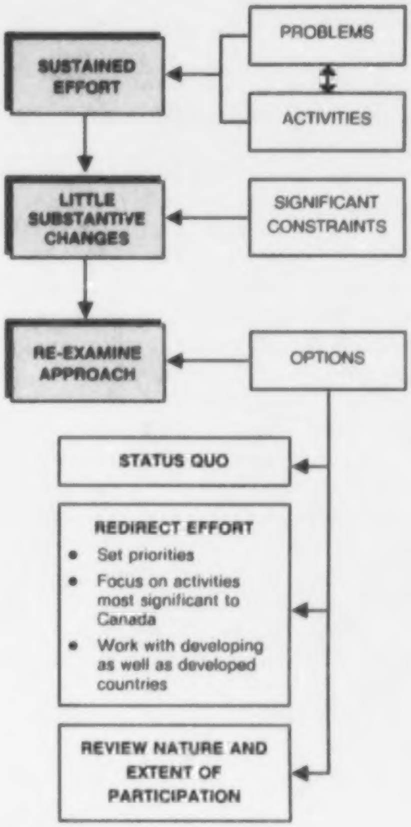
Group has confined itself to financial and administrative matters, some of which are of little significance, with insufficient linkage to program matters, and it does not include representatives of developing countries. As for the Camberly Group, members have acknowledged recently that the participation of developing countries in their deliberations would enhance the objective of reforming the Food and Agriculture Organization.

The Department's approach to reform needs to be re-examined

12.58 Continuing reform efforts along the same lines is questionable. It is doubtful that the change required to make the UN system work at an acceptable level of managerial efficiency can be accomplished with the approach taken so far. We believe that, if the Department is to fulfil its continued commitment to multilateralism, it will have to reconsider its approach to effecting reform in the system. (Exhibit 12.5)

Exhibit 12.5

EFFORTS TO REFORM THE UN SYSTEM


SUSTAINED EFFORT
PROBLEMS
ACTIVITIES
LITTLE SUBSTANTIVE CHANGES
SIGNIFICANT CONSTRAINTS
RE-EXAMINE APPROACH
OPTIONS
STATUS QUO
REDIRECT EFFORT
• Set priorities
• Focus on activities most significant to Canada
• Work with developing as well as developed countries
REVIEW NATURE AND EXTENT OF PARTICIPATION

The Department's approach to effecting reform at certain UN organizations needs to be re-examined.

12.59 Future efforts must enhance activities most significant to Canada. The Department needs to shift its efforts to, and focus on, organizations and programs that are most significant to Canada and are most likely to contribute to the achievement of its multilateral objectives. This would involve setting priorities, concentrating on attaining Canadian objectives and eliminating non-productive activities.

12.60 The Department could more actively promote adaptability to the changing political, economic and social circumstances of the 1990s in the organizations. For example, Canada has been an active proponent of the "zero real growth" policy in the UN system. In future, the Department needs to find other effective ways of encouraging organizations to selectively cut programs that are becoming obsolete in order to make room for essential new programs. Also, Canada, unlike many other member countries, has traditionally been scrupulous in maintaining its financial obligations to international organizations. This puts the Department in a strong position to continue to promote mechanisms to effectively solve the problem of arrears of membership dues. These dues are a significant source of multilateral funding.

12.61 More active co-operation with developing countries can yield benefits. Working more closely with other member countries can yield benefits, such as sharing the onerous task of ensuring the effective use of funds by recipient organizations. The need to work constructively with developing countries to effect change is not a new issue. It is important, however, to ensure close co-operation with these countries so their needs and priorities can be taken into account. Common purposes and areas of compatibility need to be found.

12.62 The Department should:

- **set priorities for further efforts to improve the administration of international organizations;**
- **focus on organizations and programs that are most significant to Canada; and**
- **more actively pursue co-operation with groups that include developing as well as developed countries to effect changes in international organizations.**

Department's response: *We agree. We recognize that known deficiencies in the multilateral system are not all being corrected, despite Canada's effort with like-minded countries. Effort on "bottom-line efficiency" is not cost-effective in the long term, is divisive and hampers ability to co-opt other members towards improvements that make organizations more effective. Reform effort must enhance program activities in the organizations that are most relevant to the issues of the day.*

We acknowledge the limitation of working with groups representing developed countries only and the need to collaborate more closely with developing countries to address the management problems that persist in the UN system. These countries often have priorities for change that are different from Canada's, but which must be taken fully into account.

Accountability for Canada's Performance

Co-ordinating responsibility and relationships with other participating departments need clarification

12.63 External Affairs' accountability to Parliament for payments to international organizations and Canada's performance in them, where other government departments and agencies are involved, is diffused (see Exhibit 12.6). There is no written understanding between External Affairs and other government departments on respective roles and responsibilities.

Accountability for Canada's participation and performance in international organizations is diffused.

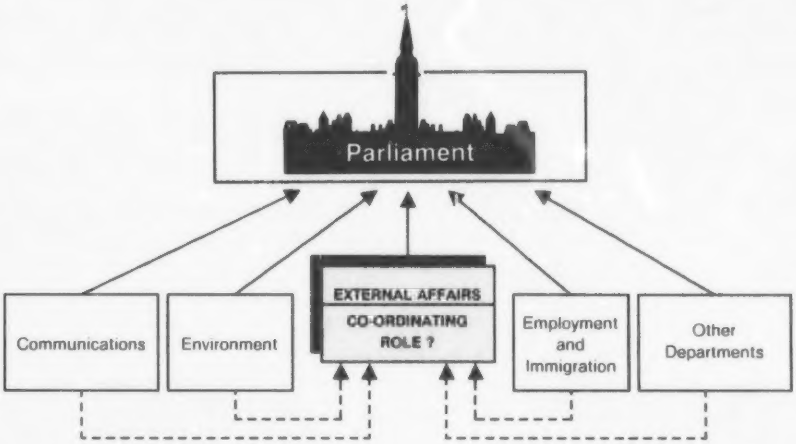
12.64 The Department takes the position that it is accountable for "high quality Canadian participation" in all international organizations. At the same time, it recognizes that other government departments will determine policy on matters in their spheres of activity and competence, and participate in the conduct of multilateral activities. For example, the Department of Health and Welfare plays an active role in technical matters relating to the World Health Organization. In some cases, other government departments make the membership payment, for example to the World Meteorological Organization and to the International Telecommunications Union.

12.65 We expected the Department to have a clear definition of "high quality Canadian participation", and to have clearly communicated this definition to other participating departments and agencies. We further expected the Department to assume the co-ordinating role for Canada's participation in international organizations. Co-ordination would include:

- assessing the need for membership, before Canada joins an organization, in relation to its foreign policy and other objectives, including those of other government departments;
- establishing a clear rationale for determining the circumstances in which other departments should make membership payments to international organizations to which Canada belongs;
- clarifying with other government departments respective roles and responsibilities,

Exhibit 12.6

ACCOUNTABILITY FOR PERFORMANCE IS DIFFUSED



External Affairs' accountability to Parliament for Canada's participation and performance in international organizations, where other government departments and agencies are involved, is diffused.

including judging the performance of international organizations;

- assessing on a periodic basis whether membership and participation in an organization meet Canada's foreign policy objectives; and
- providing a clear focal point for parliamentary scrutiny.

12.66 **Clear definition and communication of "high quality Canadian participation" needed.** We did not find a clear definition, and communication to other participating government departments, of the Department's position on its accountability for the quality of participation. Such a definition would provide a basis for developing indicators of performance for Canada's multilateral activities. The present situation creates ambiguity for the many actors involved. For example, which department is responsible for ensuring that Canada is well represented in key board and management positions within international organizations?

12.67 **Assessments of the need for membership have been carried out.** We found that assessments of the need for membership had been carried out in the two most recent cases where Canada had joined an international organization. In one case, another government department had performed such an assessment, which was endorsed by the Department of External Affairs.

12.68 **The Department of External Affairs' accountability for membership payments made by other government departments needs clarification.** Some membership payments to international organizations are appropriated through the budgets of other government departments and agencies. We could find no clear criteria for determining the circumstances in which these departments and agencies are to make membership payments. This raises questions as to the accountability of the Department of External Affairs for multilateral activities funded by other government departments.

12.69 For example, Canada recently joined the International Organization for Migration, but in spite of the Department's responsibility for immigration delivery abroad, it is the Canada Employment and Immigration Commission that makes the membership payment. This contrasts with responsibility for payments to most other technical agencies, such as the WHO and the FAO, where the Department of External Affairs pays membership dues.

12.70 We recognize the benefits of active participation by the various other departments. However, accountability would be clarified if criteria for payment by other departments were spelled out, along with the roles and responsibilities of the major players involved, as explained in the paragraphs that follow.

12.71 Clarifying roles and responsibilities with other government departments. We examined how understanding was established with other departments, in particular with respect to responsibilities and mechanisms for judging the performance of international organizations of which Canada is a member. We found that other departments involved in multilateral activity operate independently, without a written understanding with External Affairs on respective roles and responsibilities. For example, it was not clear who was responsible for monitoring the performance of the international organizations being funded, and by what mechanisms.

12.72 An exchange of letters or memoranda of understanding between External Affairs and the key departments and agencies concerned would aid co-operation and avoid duplication, gaps or possible misunderstandings on respective roles and responsibilities. Clarifying roles and responsibilities could also strengthen existing co-ordinating committees.

12.73 As discussed in paragraphs 12.31 to 12.40, we found that the Department did not ensure that "stand back" assessments to evaluate whether memberships and participation meet Canada's foreign policy objectives were periodically carried out. Neither did the Department provide a clear focal point for parliamentary scrutiny (see paragraphs 12.77 to 12.84).

12.74 Clarification would allow the Department to fulfil its accountability role. The current situation makes it difficult for the Department to fully assume its co-ordinating role. It adversely affects its ability to account to Parliament with respect to Canada's overall performance in international organizations for which the Department claims ultimate responsibility.

12.75 The Department indicated to us that such clarification would involve a review of existing legislation by Parliament, if necessary. This would provide answers to accountability questions that arise from the current situation. What is the basis for decisions about which department's budget the payment will be made from? How are visibility and accountability to Parliament for Canada's payments to international organizations served? Which department is ultimately accountable for Canada's payments and performance in multilateral co-operation?

12.76 Where other departments and agencies are involved in multilateral co-operation, the Department of External Affairs should:

- **clearly define what it means by "high quality Canadian participation" in international organizations;**
- **clearly communicate to other participating departments and agencies its accountability with regard to the "high quality Canadian participation" in international organizations; and**
- **clarify its co-ordinating responsibility and relationship with other participating departments and agencies.**

Department's response: *We agree that the co-ordinating role and relationships with other departments and agencies need to be clarified. A clear legislative mandate for the conduct of multilateral activities would clarify accountability of this Department in relation to other participating departments and agencies.*

Information to Parliament

The basis for parliamentary scrutiny of Canada's multilateral expenditures and activities is weak

12.77 The information provided by the Department of External Affairs does not give Parliament an adequate picture of Canada's multilateral activities. It does not justify the resources utilized for Canada's extensive participation in the various organizations in terms of their contribution to the achievement of its foreign policy objectives. Nor does it disclose the full cost of conducting multilateral activities.

Parliament needs better information on Canada's multilateral activities.

12.78 We expected the Department to report to Parliament on its performance related to Canada's multilateral expenditures and activities, including the results achieved and their impact. We further expected this information to be clearly stated, presenting all the relevant facts necessary to gain an understanding and allow scrutiny.

12.79 Despite the importance of multilateral activities to Canadian foreign policy, we found that information justifying these activities and the related expenditures is not clearly disclosed. There are no clear links between resources, activities, results and the impacts of those results, making parliamentary scrutiny difficult.

12.80 First, total costs are not provided. Data on resources allocated to multilateral activities by the Department itself, and by other departments, are not being compiled by the Department of External Affairs. Second, information on the nature of multilateral activities is limited. Third, there is little information on outcomes and results. Fourth, there is limited evidence of the extent to which Canadian foreign policy and other objectives have been, or will be, met through multilateral channels.

12.81 The Department reports mostly on events that will take place, or have taken place, such as major conferences, elections and appointments, and signing of treaties, as it views these as outcomes of its policies. However, the relevance of these events to furthering Canadian objectives is not stated. The following are examples of activities reported as significant accomplishments for 1989-90:

- Canada participated in the Third Summit of Heads of State of La Francophonie in Dakar and in the first Francophone Games in Morocco;
- noted Canadian environmentalist appointed to the post of Secretary-General of the UN Conference on Environment and Development;
- participated in the preparation of the International Labor Organization Convention #169 on Indigenous and Tribal Peoples.

12.82 We are not suggesting that these events are not worthy of being reported. We are suggesting, however, that the significance of each major multilateral event should be made clear to the extent possible, in terms of benefits received, particularly as they relate to Canada's foreign policy objectives.

12.83 **Better information is needed for parliamentary scrutiny.** Parliament is not provided with a realistic picture of Canada's participation in international organizations seen by the Department as relevant to furthering Canada's foreign policy objectives. One way of achieving this would be to provide Parliament, on an annual basis, with in-depth information on the Department's participation in, say, three to five different organizations. Information on costs, activities, results and the impact of those results should be reported so that proper scrutiny can take place. Such information would assist in building a stronger consensus in the country about Canada's role, foreign policy objectives and choice of options for program delivery. At present, media information on inefficiencies and waste within certain international organizations may undermine the public perception of the value of multilateral co-operation to Canada.

12.84 The Department should provide better information to Parliament to justify its use of resources for participation in international organizations in terms of the extent to which Canada is meeting its foreign policy objectives through multilateral channels.

Department's response: *We agree in principle. However, we believe that links between resources devoted to multilateral activities, results and the impact of those results are not identifiable. As such, resource utilization cannot be justified on this basis. Furthermore, we believe that Parliament should indicate what information it needs, and how it is needed.*

Conclusion

12.85 The Department can learn from its long-standing and extensive participation in international organizations. The Department's capacity for establishing priorities and informed decision making, as well as Parliament's, would be improved if it implemented the changes we recommend. The Department would be in a stronger position to enhance the value Canada derives from its participation in international organizations. For example, Canada could contribute, in partnership with other countries, to bringing about a better managed UN system.

12.86 Every year competition for public funds increases and the demand for funds to finance additional activities expands. New global issues emerge, while many existing problems remain unresolved. The Department needs to adapt its management practices to the current fiscal realities. These realities are calling for hard choices and a more focussed management approach. We believe that the Department's management practices relating to multilateral activities should be more businesslike.

Chapter 13

Department of Fisheries and Oceans
Central and Arctic Operations

Department of Fisheries and Oceans

Central and Arctic Operations

Main Points

13.1 The Central and Arctic Region of the Department of Fisheries and Oceans (DFO) is faced with more demands than it can meet, particularly in a continuing period of restraint (paragraph 13.75). These include delegation of responsibilities to the provinces and territories (13.18), participation in the settlement of aboriginal land claims (13.37), expansion of DFO's role in environmental assessment (13.30), implementation of a national fish habitat management policy (13.25), and responding to significant scientific and environmental issues such as toxic contamination, acid rain and climate change (13.50).

13.2 We found that the Region is moving to meet these demands through practices such as establishing informal co-operative arrangements with the provinces (13.24), developing habitat referral procedures (13.31), participating in co-operative management boards in the Arctic (13.47), identifying priority Arctic fish stocks (13.43) and using more outside funding to support science projects (13.57).

13.3 **Delegation to provinces.** The question of the extent and nature of responsibilities to be delegated to the Central provinces remains largely unsettled, awaiting clarification of fish habitat and related environmental responsibilities. With this unclear division of responsibilities, the Department risks being unsure of the extent to which fisheries and habitat management activities are being carried out (13.15 to 13.18).

13.4 **Fish habitat management.** Progress has been slow in implementing the Policy for the Management of Fish Habitat (13.25). It has been hindered by delays in reaching delegation agreements with the Central provinces, and by additional pressures placed on the program by the Department's expanded role in environmental assessment (13.27 and 13.30). In the meantime, the provinces have been carrying out habitat management responsibilities based on informal agreements, and without monitoring by DFO (13.23 and 13.24). Another constraint on the implementation of the habitat policy and program has been the fact that information systems and data bases are limited (13.29).

13.5 **Arctic fisheries management.** The Central and Arctic Region's management of northern fisheries has been hampered by an extended period of change and indecision, largely outside DFO's control (13.37 and 13.38). In this context, the Region is having difficulty implementing an Arctic program (13.39 and 13.40). More data and information are needed to meet both the Region's requirements and the Department's obligations under land claim settlements (13.41 to 13.45).

Main Points (cont'd)

13.6 Science priority setting. Science is the Region's main strength and underpinning, and the scientific work done in the Region is highly regarded (13.49 and 13.55). In the context of fiscal restraint and major coastal fisheries problems, the Region's ability to influence the national priority-setting process is limited (13.52 to 13.56). The increasing outside funding that supports much of the science activity is subject to client-driven priorities and schedules, which can undermine the Department's priority-setting process (13.57 to 13.61).

Table of Contents

	Paragraph
Introduction	13.7
Scope	13.12
Delegation to Provinces	13.13
An unclear division of administrative responsibilities (13.15)	
Fish Habitat Management	13.19
Informal agreements the basis for dividing responsibility (13.23)	
Slow implementation of the Habitat Policy (13.25)	
Limited habitat data and information (13.29)	
Increased workload arising from more environmental assessments (13.30)	
Arctic Fisheries Management	13.35
Difficulties in implementing Arctic initiatives (13.39)	
Limited knowledge base in the Arctic (13.41)	
Developing co-operative management approaches (13.46)	
Science Priority Setting	13.48
Scientific issues in the Region are accorded lower priority (13.52)	
Impact of outside funding on research programs (13.57)	
Implications for Central and Arctic Region scientists (13.62)	
Review of science priorities (13.63)	
Small Craft Harbours	13.65
Inappropriate levels for funding approval (13.67)	
Lack of preventive maintenance (13.69)	
Weaknesses in contracting procedures (13.72)	
Conclusion	13.75

Exhibits

13.1 Policy Framework for Fish Habitat Management
13.2 The Experimental Lakes Area Program

Department of Fisheries and Oceans

Central and Arctic Operations

Introduction

13.7 The Department of Fisheries and Oceans (DFO) supports Canada's economic, ecological and scientific interests in the oceans and inland waters. It provides for the conservation, development and sustained economic use of the nation's fisheries resources and co-ordinates the Government of Canada's oceans policies and programs.

13.8 DFO's Central and Arctic Region has a budget of approximately $46 million, which represents about 6 percent of the Department's total; its 561 person-years account for 9 percent of the Department's personnel. The Region carries out DFO's mandate in three program areas: Science, Inspection Services, and Fisheries and Habitat Management.

Fisheries and habitat management are intended to be closely integrated, interdependent activities.

13.9 Fisheries and habitat management are intended to be closely integrated, interdependent activities. Fisheries management involves assessing fish stocks, allocating fishery resources to fishermen, licensing fishermen and monitoring their catches — enforcing the provisions of the Fisheries Act that govern the conservation and protection of fish stocks. Habitat management covers the conservation, protection and development of the marine and freshwater habitats, where fish live and reproduce — enforcing the habitat provisions of the Fisheries Act and applying the Department's Policy on the Management of Fish Habitat (the Habitat Policy). The significant science component of the program — the assessment of fish stocks and habitat — is done by the science sector of the Department.

13.10 This Region is responsible for the fisheries and habitat management and development functions in the Arctic Ocean, the Northwest Territories, Alberta, Saskatchewan, Manitoba and Ontario. In the Northwest Territories, the federal government retains direct authority over the fisheries; in the Prairie provinces and Ontario the provincial governments have assumed much of the responsibility for day-to-day management.

13.11 The commercial fishery in the Region is predominantly devoted to whitefish, walleye and perch. About 50 percent of the commercial catch is marketed through a Crown corporation — the Freshwater Fish Marketing Corporation. Private processors market the balance, primarily the catch from the Great Lakes fishery. The Region's recreational fishery — an important part of the tourist industry — is estimated to be larger and more valuable than the commercial fishery. In the northern parts of the Region, Arctic char, narwhal, beluga, and seal are important to the natives for subsistence, social and cultural reasons.

Scope

13.12 We examined the programs and management practices of the Central and Arctic Region. We also examined how its managers cope with the demands placed on their diverse and expansive region, in a department dominated by problems on the east and west coasts. We looked at the following areas:

- delegation to provinces;
- fish habitat management;
- Arctic fisheries management;
- science priority setting; and
- selected small craft harbours.

Delegation to Provinces

13.13 The division of powers in Canada's constitution produces a corresponding division of responsibility for the fisheries. The federal government has exclusive power to make laws with respect to the seacoast and inland fisheries. The provinces, by virtue of their powers over property, may also make laws that affect fisheries. The provinces regulate access to fishing in fresh water (with their recreational and commercial licences) and oversee processing plants. Freshwater fisheries administration is delegated to the province in Quebec, Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia.

13.14 As a result of these arrangements, Ontario and the Prairie provinces perform virtually all their own stock assessment and stock management, and are responsible for their own licensing and enforcement activities. All provinces have some form of habitat review system, some more highly developed than others. The federal government maintains programs only in the fields of scientific support, habitat protection, and fish inspection.

An unclear division of administrative responsibilities

13.15 In our 1986 Report, we observed that delegating administrative responsibility for freshwater fisheries to the Central provinces had caused considerable confusion between the Department and the provincial governments, over their respective roles in habitat and fish management. At that time, the Department recognized the need to clarify the way it would exercise its responsibility for freshwater fish and intended to negotiate and sign General Fisheries Agreements (GFAs) with the provinces.

13.16 After five years, GFAs have been signed with Alberta and Ontario. They have been negotiated — but not finalized — with Manitoba and Saskatchewan. The negotiations have been delayed by recent court decisions forcing DFO to clarify its role and responsibilities with respect to environmental assessment.

13.17 The GFAs are meant to be supported by sub-agreements to deliver programs in areas of mutual interest, such as habitat management, science and aquaculture. To a varying extent, discussions and negotiations have been held with all of the Central provinces, but no sub-agreements have been finalized. In Ontario, a Memorandum of Intent for a habitat sub-agreement has been signed.

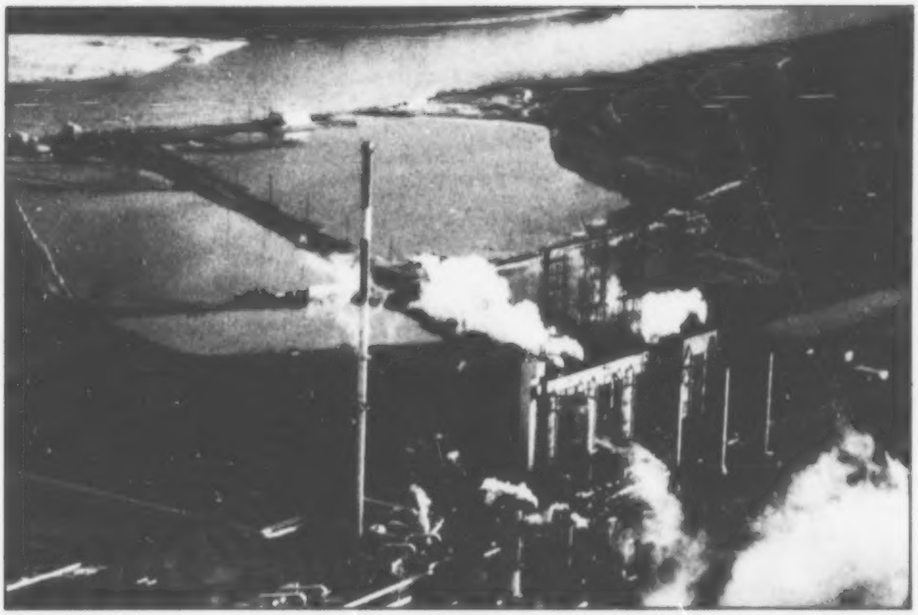
Resolving federal-provincial jurisdictional problems is complex and highly sensitive in the current environment.

13.18 Resolving federal-provincial jurisdictional problems — which are not exclusive to the Region — is complex and highly sensitive in the current environment. Recent court decisions on environmental assessment have highlighted the problems associated with the unclear division of habitat management responsibilities between the federal and provincial governments. The risk here is that the unclear division of responsibilities will result in uncertainty about whether important activities are actually taking place.

Fish Habitat Management

13.19 The Fisheries Act contains a number of sections that represent what is probably the most powerful federal legislation to protect fish habitats and the fisheries that depend on them. The implications of these habitat provisions extend well beyond fisheries to broader environmental issues, as demonstrated by recent court decisions emphasizing the responsibility the federal government must assume in assessing environmental impacts.

13.20 To date, much of the effort in fish habitat management in the Region has been carried out by the Central provinces along with their management responsibilities in the fisheries themselves. This administrative complexity — and the distinctly different interests of the responsible parties, each of



Major industrial development projects can permanently damage or destroy fish habitats if they are not properly managed. The Fisheries Act contains provisions directed at protecting fish habitats (see paragraph 13.19).

which has its own mandate — has made the management of fish habitats a difficult task.

13.21 DFO addressed concerns about fish habitat in its 1986 Habitat Policy. This policy sets as an overall objective a **net gain** in fish habitat through conservation, restoration and development. To conserve habitats, the policy established **no net loss** as its guiding principle. The Habitat Policy also proposes integrating the planning of fisheries management with habitat management (see Exhibit 13.1).

13.22 It would therefore be reasonable to expect the Department to have a plan in place for fully implementing the principles and strategies of the Habitat Policy. We would also expect to see reporting to Parliament on progress.

Informal agreements the basis for dividing responsibility

13.23 By virtue of the Fisheries Act, it is DFO that has the ultimate authority to ensure the protection of fish habitats. However, while management of the fisheries has been formally delegated to (or assumed by) the Central provinces, final habitat sub-agreements to clarify jurisdictions and responsibilities have not been reached. In one case — Ontario — a Memorandum of Intent has been signed pursuant to the July, 1988 Canada-Ontario Fisheries Agreement. This memorandum was intended to lead to a subsidiary agreement that would specify respective roles and responsibilities.

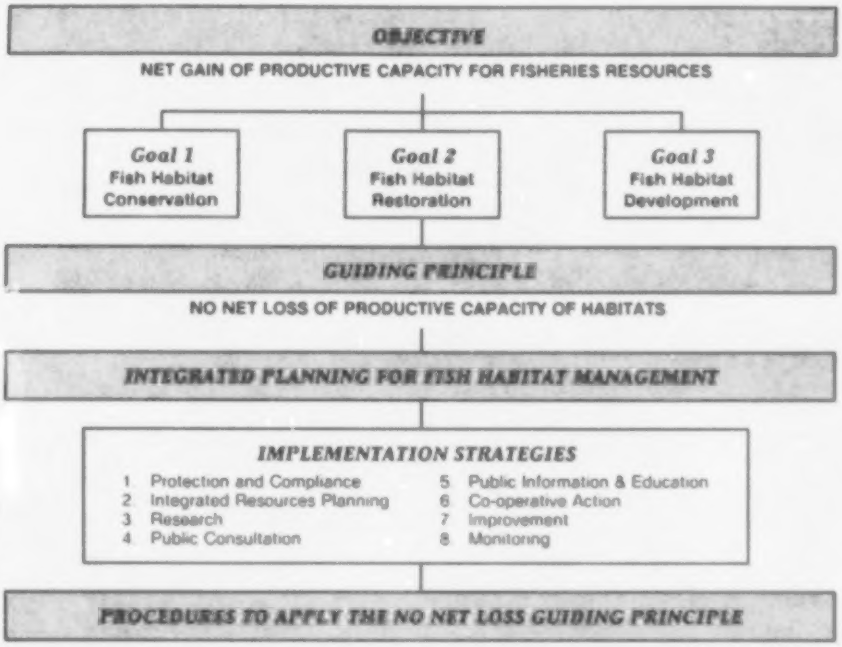
13.24 Although the Region has developed informal working arrangements with each of the provinces, the lack of formal arrangements to monitor and assess habitat management activities leaves DFO managers unable to assess the impact of decisions on the fishery and on fish habitats. Consequently, although it has the ultimate authority and responsibility to protect fish and fish habitats, DFO cannot be sure to what extent those responsibilities are being carried out.

Slow implementation of the Habitat Policy

13.25 Since its introduction in 1986, the Department's Habitat Policy has received wide acceptance as a well-written, logical document and a good example of a framework that recognizes a sustainable development approach in the management of fish habitats. Over five years, however, progress in developing a co-ordinated approach to implementing the

Exhibit 13.1

POLICY FRAMEWORK FOR FISH HABITAT MANAGEMENT


OBJECTIVE
NET GAIN OF PRODUCTIVE CAPACITY FOR FISHERIES RESOURCES
Goal 1
Fish Habitat
Conservation
Goal 2
Fish Habitat
Restoration
Goal 3
Fish Habitat
Development
GUIDING PRINCIPLE
NO NET LOSS OF PRODUCTIVE CAPACITY OF HABITATS
INTEGRATED PLANNING FOR FISH HABITAT MANAGEMENT
IMPLEMENTATION STRATEGIES
1 Protection and Compliance
2 Integrated Resources Planning
3 Research
4 Public Consultation
5 Public Information & Education
6 Co-operative Action
7 Improvement
8 Monitoring
PROCEDURES TO APPLY THE NO NET LOSS GUIDING PRINCIPLE

The Department's Policy for the Management of Fish Habitat established the "no net loss" principle. Progress has been slow implementing this policy (see paragraph 13.25).

Habitat Policy's principles and strategies has been slow.

13.26 A number of department-wide initiatives to implement the policy were started, but not completed:

- A "Strategic Implementation Planning Framework" was established in 1987, and annual reporting on habitat achievements and progress subsequently commenced. However, since 1989 these planning and reporting instruments have been overtaken by new requirements. The Department has recently initiated revised reporting under amendments to the Fisheries Act and has requested updates to the planning framework.
- A framework for evaluating the implementation of the Habitat Policy was developed, and several workshops were held to examine a proposal for a two-tiered evaluation. (This evaluation has been postponed one year, to 1991-92.)
- Several drafts of a procedural guide for implementing the "no net loss" principle have been developed; however, DFO habitat managers are having difficulty agreeing on an acceptable approach, in part due to the complexity of the subject and an absence of definitive scientific information.

13.27 In the Central and Arctic Region, the Central provinces have endorsed the principles of the Habitat Policy. Its implementation has been hindered, however, by the failure to finalize habitat sub-agreements, and by crises like the recent court decisions resulting in expanded responsibilities for environmental assessment, which continue to interrupt habitat work and override plans, adding to the strain on available resources.

13.28 We believe the Department needs to make a concerted effort to get the implementation of the policy back on track. Failure to do so risks inconsistent application of the policy, and possible unknown damage to fish habitats.

> *Expanded responsibilities for environmental assessment continue to interrupt habitat work and override plans, adding to the strain on available resources.*

Limited habitat data and information

13.29 Properly implementing the Habitat Policy requires specific data and information on habitats, and the development of indicators to measure complex concepts like their productive capacity, which are very hard to define. Despite ongoing attempts, DFO habitat managers and scientists have not yet refined methods to define and measure the productive capacity of different habitats.

Increased workload arising from more environmental assessments

13.30 The Fish Habitat Management Branch and the regional habitat managers and scientists have been overwhelmed by the additional work resulting from the greater environmental assessment responsibilities placed on the Department by virtue of recent court decisions. The courts have held that the Department must assume these responsibilities, even when a provincial government is the proponent or the principal authority issuing permits, and even when the provincial government has already performed an environmental assessment. In short, whenever a proposal might have an environmental impact on an area of federal responsibility, an assessment in accordance with the Guidelines Order must be carried out.

13.31 The Region has administrative procedures for handling proposals referred or reported to it. There is, however, no systematic collection of information on the number and types of habitat referrals handled by DFO. It is, therefore, difficult to compile statistics on referrals received and completed for planning and evaluation purposes.

13.32 The Region should systematically measure and report on habitat referrals.

Department's response: *An initiative is underway to develop a system for reporting on habitat referrals on a national basis. This system is expected to respond to the issues set out in paragraph 13.30.*

13.33 Parliament is not being properly informed about the problems in implementing the Department's Policy for the Management of Fish Habitat. Both the 1990-91 and 1991-92 Part IIIs of DFO's Estimates briefly describe some of the progress made in this area but do not mention any of the delays encountered or the limited data. Nor do the Part IIIs mention the related risks to the fisheries and fish habitats that can result. For instance, the 1990-91 "achievements" reported "significant progress" in furthering policy directions for habitat, including the development of an interim version of the No Net Loss Procedural Guide. Several drafts of this document have been developed since 1988, but it has not been finalized. The Department reports that the draft procedures are currently being tested.

13.34 The Department should report fully to Parliament on its progress in implementing the Policy for the Management of Fish Habitat.

Department's response: *DFO concurs with the recommendation. The Department undertook, when the Fisheries Act was amended in January 1991, to provide an annual report to Parliament on the administration of the habitat protection and pollution prevention provisions of the Act, commencing with the results of the 1991-92 fiscal year.*

Arctic Fisheries Management

13.35 Compared to the other fisheries in Canada, the fisheries in the Arctic are very small, both in their value and in the volume of the catches. However, the fish and marine mammals have social, cultural, and economic significance to the predominantly native residents of the Northwest Territories.

13.36 The native population relies heavily on the fisheries for its livelihood. Because economic opportunities in the Arctic are limited, fishery development is a priority for governments, native organizations and communities. More and more, northern residents look to the development of new commercial and recreational fisheries to increase their income. This increases the demand placed on DFO for services, and the burden is compounded by the huge area of land and water that the Region must monitor and manage with its limited resources.

13.37 **A period of change**. DFO's responsibilities in the Arctic are heavily influenced by events that are mostly outside the Department's control: the negotiation and settlement of native land claims, the federal government's delegation of certain responsibilities to the territorial governments, economic growth and the demand for renewable and non-renewable resources. In turn these events are shaped by government fiscal considerations, intergovernmental relations, and public attitudes and expectations. This has resulted in a period of considerable change in the Northwest Territories, making it extremely difficult to develop and implement a practicable Arctic program. Nevertheless, we would expect the Department to ensure that it can meet its obligations to provide data on the most significant Arctic fish stocks required by native land claim settlements.

13.38 Negotiations were opened with the Government of the Northwest Territories to transfer the day-to-day administrative responsibilities for inland fisheries management from DFO to the Government. DFO was to retain responsibility for managing anadromous and marine fisheries, fish habitat, science and fish inspection. Negotiations eventually broke down when the two parties were unable to agree on the resources (dollars and person-years) to be transferred.

Difficulties in implementing Arctic initiatives

> *Despite the priority the Department has placed on Arctic issues, departmental personnel in the North are having difficulty keeping pace with the demand for services.*

13.39 Despite the priority the Department has placed on Arctic issues, departmental personnel in the North are having difficulty keeping pace with the demand for services resulting from native land claims settlements, pressures for resource development, public pressure to regulate marine mammal harvesting, and the expanded demand for environmental assessment.

13.40 The two years of delegation negotiations with the Government of the Northwest Territories added further pressure. DFO delayed several initiatives, including boat and vehicle replacements and upgrades, and the staffing of several vacant fishery officer positions. The uncertainty as to whether delegation would proceed affected staff morale, DFO's ability to deliver programs, and its ability to plan for the future. Through all this, staff have attempted to manage in a period of reduced resources.

Limited knowledge base in the Arctic

13.41 **Lack of information on fisheries and fish habitat outside major fisheries.** Fisheries data are limited to information available for Great Bear Lake and Great Slave Lake and for the commercial fisheries that sell to the Freshwater Fish Marketing Corporation.

13.42 A consultant's report recently prepared for the Government of the Northwest

Native residents in the Arctic rely heavily on marine mammals, such as the narwhal shown here, for their existence (see paragraph 13.36).

Territories concluded that there are serious deficiencies in knowledge about inland fish and fisheries. In addition, the 1987-88 report of the Arctic Fisheries Scientific Advisory Committee indicated that, in 75 percent of cases where scientific advice was required for the various fisheries, the knowledge base was inadequate. In several instances, the rational planning of fishery resources exploitation cannot proceed because the information on the distribution and abundance of fish and marine mammal resources and on how these resources are used is inadequate.

13.43 It is unreasonable to expect that DFO would have fishery management plans in place for all of the hundreds of Arctic fish stocks. Priority must be given to those with the greatest economic and/or cultural significance and to those that may be endangered or overharvested. Accordingly, DFO has developed criteria for determining the importance of a stock and is developing management plans for those with priority status.

13.44 As a basis for the sound scientific and economic management of stocks, there is a need for data on stock assessment, research (including habitat research) and harvest, particularly for domestic fisheries. DFO needs this information to respond to pressures from fishermen and the Government of the Northwest Territories, as well as to answer national and international concerns about endangered species. Collecting this kind of data is an obligation under both current and proposed native land claim settlements.

13.45 The Department should ensure that it can meet its obligations to provide data on fish stocks for current and proposed native land claim settlements.

Department's response: *The Department is increasing its information base for priority stocks within its fiscal constraints.*

Developing co-operative management approaches

13.46 Experience has shown that co-operative management can contribute to the successful implementation of programs, particularly in expansive geographic areas such as the Arctic, where the Department's program resources are limited. Co-operative management involves clients in setting priorities and making decisions on resource

The Department is under increased pressure (see paragraph 13.36) and lacks the data and information (see paragraph 13.42) to deliver its services in the Northwest Territories. Here, Fishery Officers inspect a fishing vessel on Great Slave Lake.

management, research, enforcement and development, generally through their participation on boards and committees. In fact, co-operative management boards are a legal requirement under settled land claims in the Arctic, and will be required under future settlements.

The ability to communicate with resource users has proven critical to co-operative management.

13.47 Both formal, co-operative management agreements and less formal arrangements have been established through various committees and boards in the Arctic. Consultations are also held with Hunters' and Trappers' Committees and other resource users. The ability to communicate with resource users has proven critical to these co-operative management processes. In general, DFO has not experienced problems in its communication with Arctic resource users.

Science Priority Setting

13.48 The mandate of DFO Science. DFO's science program has a mandate to ensure that the highest standard of scientific information is available to the Government of Canada for use in developing policies, regulations and legislation governing the oceans and aquatic life, and to other government departments, private industry and the public for use in planning and carrying out aquatic activities.

13.49 The Central and Arctic Region's reputation is based primarily on its scientific expertise, its history of research projects and the quality of its research scientists. Over 50 percent of the Region's resources are devoted to the science program.

13.50 In some ways, science sector activities are more diverse in the Central and Arctic Region than they are in other DFO regions. Since the Department's responsibilities include the Great Lakes, transboundary waters across the Western provinces, involvement in aboriginal claims, and new circumpolar perspectives, DFO plays an important role with other government agencies in a growing number of issues of regional, national and international importance, such as toxic contaminants, acid rain and changes in climate. The Region also faces budgetary constraints and is searching for alternatives. It is important in this environment that the Region's management evaluate the effectiveness of its changing funding arrangements.

13.51 Given that the Region is the Centre of Disciplinary Expertise for Freshwater Fisheries Contaminants and Toxicology, and is a key contributor to Great Lakes Water Quality initiatives, science continues to be its primary operational focus.

Scientific issues in the Region are accorded lower priority

13.52 To assess continuity of priorities, we reviewed science sector and departmental priorities for the Region's Biological and Physical/Chemical Sciences programs, covering the five fiscal years 1987-88 through 1991-92. We also reviewed the 1990-91 priority-setting process for Biological Sciences.

13.53 Scientific research and the related priority setting in a government agency such as DFO could be described as a matter of trying to arrive at a balance among the functional needs defined by a mandate, the evolving frontiers of knowledge, and the availability of resources.

13.54 DFO has a formal process in place to establish science sector priorities, designed to guide regional science programs. Recognizing that spin-off ideas and non-priority research have an important role and that some regional flexibility is needed, the process is not intended to impose absolute national control over programs.

13.55 The priorities of DFO place a strong emphasis on Atlantic and Pacific marine issues. The Central and Arctic Region does not receive as much prominence in the Department's priority-setting process. Despite this, the Region has been successful in maintaining its scientific excellence. Reviews by the Royal Society and others, over the years covered by this examination, have shown that the calibre of science has been high. And peers also consider that the productivity of the Central and Arctic Region science community is high.

There appears to be growing recognition that much of the Region's science is nationally and internationally significant.

13.56 There appears to be growing recognition that much of the Region's science is, in fact, nationally and internationally significant — and of particular importance to "sustainable fisheries" issues. In addition, activities in freshwater and marine science have moved away from narrowly defined, discipline-specific work toward more broadly conceived, transdisciplinary ecosystem activities. Moreover, greater environmental awareness also places more emphasis on DFO's freshwater science responsibilities.

Impact of outside funding on research programs

13.57 Based on our review of science budgets over five years, we observed that substantial reductions have occurred in the purchasing power of base support funding for Biological Sciences and Physical/Chemical Sciences in the Central and Arctic Region. Science programs and projects depend, to varying degrees, on outside or contingent funding made available by other departments or agencies. Since 1987-88, the Biological Sciences and Physical/Chemical Sciences programs have depended on external funding for more than half of their non-salary operating budgets.

13.58 These funds are obtained on an annual basis from sources largely outside DFO. The use of outside funds does address industry priorities and encourages a transfer of technology. However, the annual funding drive and the sunset nature of many of these funding arrangements add to the uncertainty about the longer-term prospects of these programs.

Exhibit 13.2

THE EXPERIMENTAL LAKES AREA PROGRAM

Beginning in the late 1960s under the new Freshwater Institute, an area southeast of Kenora, Ontario containing 46 small lakes was set aside for research through a federal-provincial agreement, with strong support and encouragement from the Fisheries Research Board. The area was to be used to carry out critical whole-lake experiments. After the demise of the Fisheries Research Branch, the program carried on under a variety of departments and departmental organizations.

Within a few years of its creation, this unique program was receiving widespread recognition from the international community. A scientist on the project was awarded the coveted and valuable Stockholm Prize for his work on eutrophication and acidification of lakes, which has influenced environmental legislation in Canada, the United States and the European Economic Community.

The program's links to fisheries have been maintained, but to continue the "ecosystem" focus an extensive network of collaborators in other government departments, universities and industry was developed and expanded. In the meantime, secure funding from DFO declined because of new and immediate priorities.

Despite these uncertainties, the Experimental Lakes Area program has continued to be highly productive. However, it has clearly reached a critical decision point. The secure financial base has eroded and the program currently relies heavily on unpredictable, special, external funding sources. Furthermore, since the mid-1970s the number of projects and staff involved in the program has declined, and the "temporary" physical plant established more than 20 years ago is becoming unserviceable.

13.59 This is a particular problem for the Region's Arctic programs. There are cases where an entire field season would have been lost if funds had not been borrowed from DFO base funding until the outside funds for the project arrived. In a case involving Arctic marine mammal research, funding came through too late to be used efficiently, and partial funding fragmented the program.

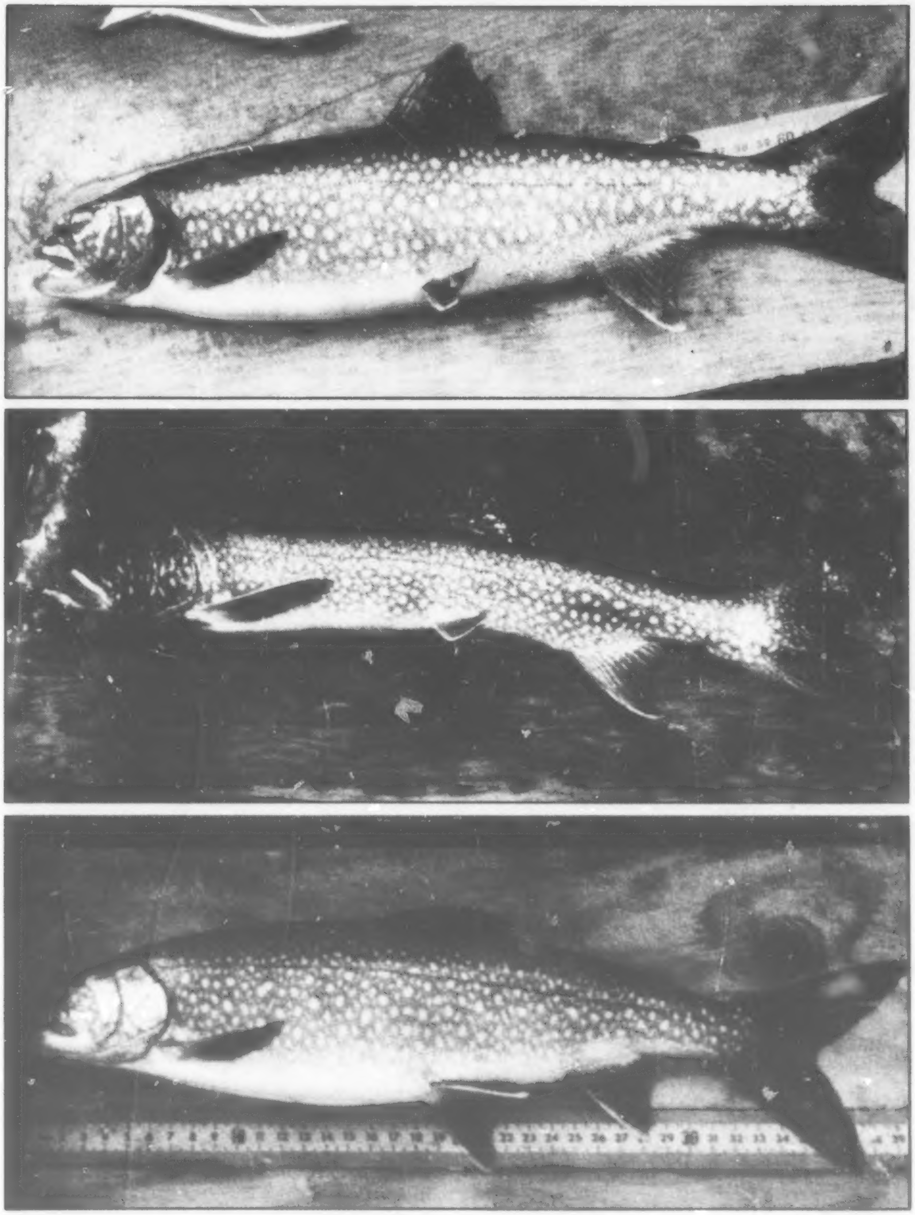
13.60 Furthermore, the premature termination of external funding for a multi-year program can result in the uneconomical and inefficient use of the resources already invested. As an example, at the time of our audit, the outside funding necessary to keep the Experimental Lakes Area program operating in 1991-92 was still in question, placing a host of research activities in doubt. Yet the program is described as "the flagship of DFO's freshwater research", and was pivotal in Canada's negotiations with the United States on acid rain (see Exhibit 13.2).

13.61 The Department should evaluate the effectiveness of increasing its reliance on outside funding in the Region's science program.

Department's response: *The Department is examining ways to involve other partners more directly in the Experimental Lakes Area programs and in sharing costs on a long-term basis. Funding has been approved for the Green Plan acid rain program. The Department plans to consider ways to reduce the undesirable effects of external funding on program delivery.*

Implications for Central and Arctic Region scientists

13.62 The significance of the Region's science. Given the Department's apparent focus on coastal fisheries and oceans problems, the Region's scientists have the impression that their contribution is not really



These photos show the effects on fish when Canadian scientists dosed a lake for eight years with sulphuric acid to simulate acid rain. Top, a healthy trout in 1979, before the lake had been completely acidified. Middle, an emaciated trout in 1983, showing clear signs of damage. Bottom, a year later, after dosing had stopped, the effects of acidification were being reversed and the trout population was coming back. This research was carried out at the Region's Experimental Lakes Area (see Exhibit 13.2).

valued in DFO. We found a widespread perception that the significance of the Region's science is not accorded appropriate attention or is not fully understood at headquarters, despite the recognition it has merited elsewhere. However, headquarters staff have a different view and point to the role played nationally by the Region's scientists, but they acknowledge that this issue could be addressed with better communication.

Review of science priorities

13.63 Headquarters science sector managers, with input from regional managers, are currently going through a major review of programs. This exercise will define science sub-work activities as "business units" (chemical oceanography and contaminants, aquaculture, and stock assessment, for example).

13.64 For each business unit, the Department will determine and document the background, environmental and internal information that will enable it to better define what it is doing now — and what it will have to do in the future — to ensure that its business is appropriately delivered. DFO hopes that this program review will help the science sector to better define and rank its priorities, deciding which programs and projects will be supported and to what extent.

Small Craft Harbours

13.65 The Central and Arctic Region manages 496 small craft harbours with a value of approximately $400 million. The Region's 1990-91 capital budget for this activity is $7.4 million.

13.66 The criteria for the small craft harbours audit were derived from our guide on auditing capital assets, and covered needs definition, options analysis, project definition, contracting and project delivery.

Inappropriate levels for funding approval

13.67 We audited records, contracts and reports for 11 harbours — 10 commercial and 1 recreational — on which capital funds had been spent over the past three years. We also examined the expenditure planning process and concluded that it is sound. It is based on an assessment of facilities and their use every two years to verify that they meet national standards for harbour conditions. However, funding approval for necessary harbour repairs is often late, which adversely affects the completion of projects. Each project over $15,000 must be approved by headquarters, which causes significant delays in delivering funds to the Region. That, in turn, delays the start of construction and increases overall costs because construction must continue into the winter.

13.68 The Department should review the level of spending authority accorded regional directors, to determine what level represents the most reasonable compromise between the need for efficiency and the need for control in carrying out planned or emergency harbour repairs.

Department's response: *The approval process is being revised to minimize delays in construction starts.*

Lack of preventive maintenance

13.69 We found that the Small Craft Harbours (SCH) directorate lacks documented policies and procedures for preventive maintenance. We were informed that "the preventive maintenance philosophy is based on comprehensive inspections, rather than o[illegible] scheduled maintenance program". The [illegible]n inherent risk to this approach, in that a lack o[illegible] scheduled maintenance can eventually lead to more costly emergency or major repairs.

13.70 We noted that the Harbour Maintenance Management System focusses on larger projects and provides no guidance on preventive maintenance. In our view, the funds available for operations and maintenance (less than 0.5 percent of the $400 million value of the assets) are not sufficient to safeguard these assets in the long term.

13.71 The Small Craft Harbours directorate should review its procedures and budget allocation for preventive maintenance.

Department's response: *The Department will review the harbour maintenance system. New procedures will be proposed to improve the preventative maintenance aspects of the Program.*

Weaknesses in contracting procedures

13.72 We examined 34 contracts and noted that all major construction and repair is carried out by the Department of Public Works (DPW) under Specific Service Agreements between

A commercial-recreational harbour in Gimli, Manitoba (see paragraph 13.65).

DPW and the SCH directorate. After funding has been approved for a specific project, the Regional Director (SCH) initiates the project. DPW solicits bids and, once the successful bidder is chosen, recommends a contract award. The SCH directorate approves the award, then provides funding. The SCH directorate is not directly involved in the contracting process and does not receive a copy of the contract; consequently, it has no way to assess whether the contract meets project specifications.

13.73 The final acceptance inspection of a project is carried out by DPW. Except for the Manitoba office, the SCH directorate does not participate in the commissioning process. In our view, this does not afford the SCH directorate the owner's normal opportunity to determine that the work has been done correctly and that it meets the original specifications.

13.74 The Small Craft Harbours directorate should be involved in the final inspection and commissioning process for major projects.

Department's response: *The Department will attempt to work out an agreement with DPW whereby it can rely for the most part on final inspections completed by DPW, but will participate on a selective basis in some final inspections.*

Conclusion

13.75 The Central and Arctic Region has more demands placed on it than it can meet in a period of continuing restraint. Many of these demands relate to national and government-wide issues that it is asked to address. These are complex and difficult issues to deal with and it will require considerable time to reach solutions. At the same time, like all government organizations, the Region has to manage within existing resources.

13.76 We found that the Region is coping with these demands through practices such as establishing informal co-operative arrangements with the provinces, developing habitat referral procedures, participating in co-operative management boards in the Arctic, identifying priority Arctic fish stocks and using more outside funding to support science projects.

13.77 Our audit recognizes both the pressures placed on the Region and the initiatives it has undertaken to meet these pressures. In this context, we have raised a number of observations and recommendations, both to inform Parliament of the operational environment in this geographically large and diverse Region and to encourage management to concentrate its efforts in several areas, to help the Region meet and deal with the demands placed on it.

Chapter 14

Department of Indian Affairs and Northern Development

Department of Indian Affairs and Northern Development

Main Points

14.1 **Inadequate accountability for funding.** Seventy-two percent ($1.9 billion) of the $2.6 billion budget of the Department of Indian Affairs and Northern Development (DIAND) for the provision of goods and services to the Indian peoples is self-administered by bands or tribal councils. DIAND is answerable to Parliament for these funds, but it does not have assurance in all cases that they are used for the purpose intended or managed with due regard for economy, efficiency and effectiveness (paragraphs 14.15 to 14.20).

14.2 **Housing dependency and backlog.** Status Indians residing on reserves are not eligible for housing assistance available to other Canadians from provincial and municipal governments. Furthermore, the Indian Act deters them from securing funds from private financial institutions or providing personal equity investment in on-reserve housing. Consequently, they depend entirely on the federal government for housing assistance. Although DIAND's policy is to provide support for adequate housing, the Department has not clarified whether this provision is a benefit or a right, as claimed by the Indian organizations (14.21 to 14.31).

14.3 DIAND estimates that it would cost up to $840 million to clear the existing backlog of 10,000 to 11,000 housing units. DIAND has no strategic plan to resolve this critical problem (14.32 to 14.33).

14.4 **1985 amendments to the Indian Act (Bill C-31).** DIAND estimates it will cost over $2 billion during the next ten years to implement Bill C-31. The costs are for government commitments to meet increased demands for housing, education, and health and dental care for new status registrants (14.34 to 14.41).

14.5 **Specific claims.** The Indian Act and Indian treaties require DIAND to manage reserve lands and band funds. The alleged mismanagement of these assets has resulted in about 600 specific claims against the Department. In spite of federal commitments to improve the process, over half of the claims received during the past 20 years were still in process in fall 1990. We believe that stronger commitments by all parties to expedite the process are needed if desired reductions in processing times are to be achieved (14.53 to 14.75).

14.6 Since 1976, DIAND has contributed about $50 million to Indian associations or bands to conduct claims research. DIAND does not know to what extent these research funds have been used for their intended purpose (14.76 to 14.78).

14.7 Towards the end of our audit, the government announced that new initiatives would be taken to address native issues, including specific claims (14.94).

Table of Contents

Paragraph

General Background 14.8

Audit Objectives and Scope 14.14

Accountability

- **Background** 14.15
- **Observations and Recommendations** 14.19
    - DIAND lacks accountability framework (14.19)

Housing

- **Background** 14.21
- **Observations and Recommendations** 14.26
    - Clarification of commitments and responsibilities is essential (14.26)
    - DIAND needs solution to housing backlog (14.32)

1985 Amendments to the Indian Act (Bill C-31)

- **Background** 14.34
- **Observations and Recommendations** 14.37
    - Implementation of Bill C-31 will cost over $2 billion (14.37)
    - Membership data is required for program planning and funding (14.42)
    - Bands successfully administer government-funded programs (14.46)

Specific Claims

- **Background** 14.53
- **Audit Objective and Scope** 14.62
- **Observations and Recommendations** 14.64
    - Claims practices need re-assessment (14.64)
- **Case Illustrations** 14.95

Indian Oil and Gas Canada Production Assurance

- **Background** 14.118
- **Audit Objective and Scope** 14.121
- **Observations and Recommendations** 14.122
    - IOGC has limited evidence of production assurance (14.124)

Exhibits

14.1 Federal Expenditures for Aboriginal People
14.2 Program Expenditures Administered by Indians
14.3 Status of the 593 Specific Claims Submitted, 1971-1990

Department of Indian Affairs and Northern Development

General Background

14.8 The Department of Indian Affairs and Northern Development (DIAND) administers, in whole or in part, 46 statutes to fulfil the lawful obligations of the federal government to aboriginal people arising from treaties, the Indian Act and other legislation. DIAND is responsible for administering Indian reserve lands and providing for the delivery of basic services to status Indian and Inuit communities. DIAND also negotiates the settlement of accepted claims relating to aboriginal title not dealt with by treaty or other means and to non-fulfilment of government obligations.

14.9 Between the years 1981 and 1989, the status Indian population grew at a rate three times faster than the Canadian population as a whole. This has resulted in an Indian population that is very young. In 1989, the status Indian population was approximately 466,000. Slightly more than 50 percent were under 25 years of age, compared to less than 36 percent of the Canadian population as a whole. This growth has placed heavy demands on Indian communities and the federal government to provide education, housing, employment, and other services.

14.10 At the time of our audit, there were 601 registered Indian bands. Almost two thirds had a population of less than 500. The remoteness and small size of many Indian reserves drastically limit the opportunities available to Indians and affect the nature and cost of services provided to them.

14.11 Status Indians, as Canadian citizens, benefit from all universally available federal programs, such as Family Allowance, Old Age Security and Unemployment Insurance. In addition to these programs, status Indians who live on reserves (60 percent of the total Indian population) receive federal services such as education, health and dental care, social assistance, housing, community infrastructure and economic development. Furthermore, status Indians living on reserves generally do not pay income tax, provincial sales tax, property tax or goods and services tax.

The federal government has budgeted over $4 billion to provide for the basic needs of Indians in 1991-92.

14.12 Exhibit 14.1 shows federal expenditures for aboriginal people from 1984 to 1991. The amount budgeted for 1991-92 is over $4 billion. Indian needs will continue to grow over the years as a result of demographic and other factors. Although we are not expressing an opinion on the appropriateness of this amount, it is significant by any measure. Nevertheless, the standard of living in most native communities remains considerably lower than the national average.

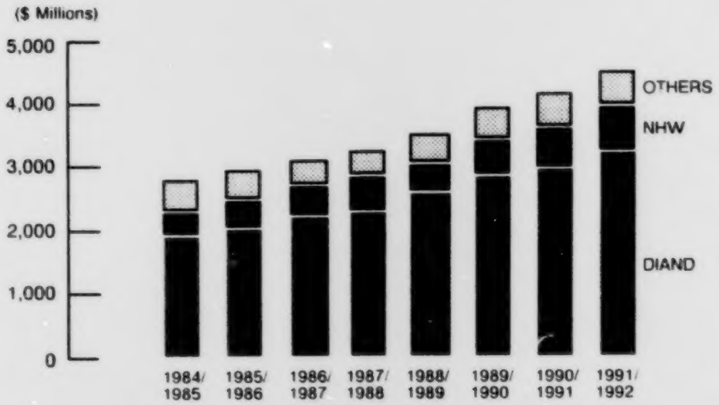
14.13 Both Indians and the federal government acknowledge the need to define the relationship between the "First Nations" and Canadian society in terms of constitutional rights and aboriginal title. Ongoing complex negotiations are anticipated for a number of years. However, important initiatives are urgently required if improvements in socio-economic conditions are to be met with assurance that government funds are used effectively.

Audit Objectives and Scope

14.14 The objectives and scope of our audit were to examine and assess:

Exhibit 14.1

FEDERAL EXPENDITURES FOR ABORIGINAL PEOPLE



Source: DIAND

- whether there is appropriate accountability for the $2.6 billion spent by DIAND on the Indian and Inuit Affairs program;
- the adequacy of DIAND's procedures for providing support to individuals and bands in obtaining adequate housing;
- the adequacy of the planning for, and implementation of, the 1985 amendments to the Indian Act (Bill C-31);
- the adequacy of the specific claims process and results; and
- the extent to which DIAND verifies the completeness and accuracy of production reports by third-party leaseholders of Indian oil and gas resources.

Accountability

Background

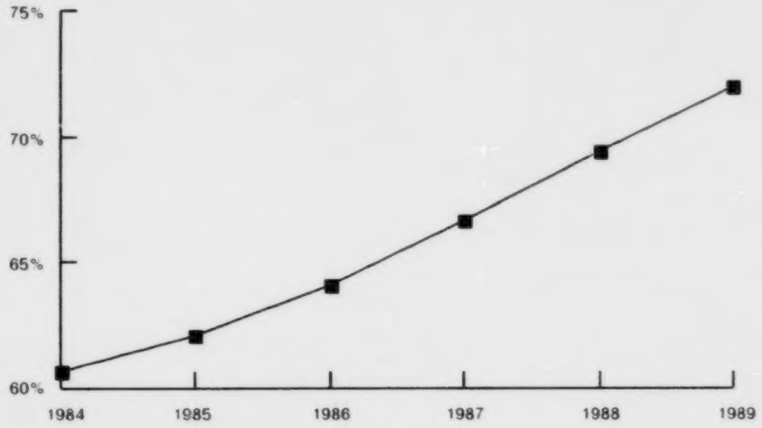
14.15 DIAND spent $2.6 billion in 1990-91 on providing services to Indian people. For a number of years, the Department has been transferring the administrative authority and responsibility for the delivery of services to Indian bands and tribal councils. Funding administered by Indians in 1989-90 amounted to $1.9 billion, which was 72 percent of total DIAND program expenditures. This reflects the willingness of the government and Indian groups to encourage Indian autonomy. Exhibit 14.2 shows the trend for the past six years.

Bands and tribal councils administer $1.9 billion or 72 percent of DIAND's funding for services to Indians.

14.16 DIAND uses various vehicles to transfer funds to Indian bands and tribal councils for delivering services. Funds are appropriated by Parliament to achieve specified program results, while Indian communities are being provided with flexibility to redefine programs and reallocate resources. Alternative Funding Arrangements and Flexible Transfer Payments are significant vehicles used by DIAND to provide bands or tribal councils with lump-sum payments to deliver Indian programs.

Exhibit 14.2

PROGRAM EXPENDITURES ADMINISTERED BY INDIANS



Source: DIAND

The bands can design and implement their own policies in such areas as welfare, education and economic development.

14.17 We acknowledge the concept of allowing bands to modify federally funded programs so that they will be more appropriate to their communities' needs. However, under the legislation currently in place, the Department still retains ultimate accountability for the way in which these funds are spent and the results they produce.

Funds administered by Indian bands and tribal councils need a proper accountability framework.

14.18 According to DIAND, the Minister's accountability to Parliament remains intact for these funding arrangements with bands or tribal councils. They are not unconditional transfer payments. They have a specific purpose, which must be accounted for.

Observations and Recommendations

DIAND lacks accountability framework

14.19 In prior years, we commented on DIAND's accountability regime and observed that improvements were needed. While eligible Indians should be provided with the level and quality of services to which they are entitled, every effort should be made to ensure that the funds devoted to this purpose are used effectively. This requires a proper accountability framework within the Indian community and adequate controls in DIAND to provide assurance of fairness and due regard for economy, efficiency and effectiveness. We found that DIAND's funding arrangements with bands and tribal councils still lack this accountability framework. In some cases, DIAND does not know how well bands are exercising their stewardship over public funds and has no procedures to ensure that bands are accountable for the spending of such funds.

14.20 DIAND should improve its accountability framework to include, as a minimum, the following requirements in administering payments to bands and tribal councils:

- **timely submission of annual audited financial statements by bands and tribal councils;**
- **timely submission of activity and financial reports with acceptance of monitoring as a criterion of eligibility; and**
- **evaluation of funding arrangements respecting the quality and level of services provided to band members.**

***Department's response**: DIAND has introduced a number of new funding mechanisms which provide bands with progressively increasing authority. The amount of authority transferred depends on the nature of the program being funded, the management capacity of a given band and the band's desire to manage its own affairs. Coupled with the transfer of authority DIAND is reducing its monitoring and control of bands and emphasizing the importance of accountability by Indian councils to their own constituents.*

DIAND accepts and is prepared to manage the business risk inherent in this transfer process. From time to time some bands will encounter difficulty in delivering programs or in submitting reports within the time period required by the Department for purposes of reporting to Parliament.

The Department acknowledges that such circumstances cause deficiencies in the accountability framework. However these problems are not of such a nature as to distort the Department's representation to Parliament.

The Department will continue to work with bands to address such deficiencies as may arise.

Housing

Background

14.21 The stated objective of DIAND's housing activity is "to provide support to individuals and bands in obtaining adequate housing by providing subsidies towards the construction and renovation of houses on reserves as well as training, management and technical assistance to bands." This housing is to be consistent with recognized National Building Code standards.

14.22 In addition to servicing building lots and guaranteeing housing loans, the Department currently provides subsidies of roughly 50 percent of the construction costs, which range from $19,000 to $46,000 per unit, depending on remoteness and local construction rates. Renovation subsidies averaging $6,000 are also provided. In addition, bands may apply for assistance from the Canada Mortgage and Housing Corporation for community projects and for individual loans for the construction of new houses or the renovation of existing ones.

14.23 The legislative authority for housing subsidies is derived from the annual appropriations. In 1989-90, total expenditures were $105.2 million for the construction of 2,746 houses and the renovation of 4,151 existing units.

14.24 In 1985, the Program Evaluation Branch of DIAND completed an on-reserve housing program evaluation. The study found that, although new on-reserve housing is constructed to meet National Building Code standards, much of the older housing is among the poorest in Canada. In terms of three major criteria -- physical condition, crowding, and access to basic facilities and amenities -- only 27.3 percent of on-reserve housing was found to be "completely adequate".

14.25 Both this evaluation and a discussion paper published by DIAND in 1990, entitled "Laying the Foundations of a New On-Reserve

Housing Program", estimated a backlog of about 10,000 housing units.

Observations and Recommendations

Clarification of commitments and responsibilities is essential

14.26 Indian organizations have stated that their people have a right to adequate housing from the Government of Canada. They believe the government has an obligation that flows from a combination of treaty rights, basic aboriginal rights, and the Constitution.

14.27 Part III of the Estimates does not indicate whether DIAND's responsibility for housing subsidies represents a right or a benefit to the Indians. Nor does it specify the extent of DIAND's commitments in this regard. DIAND's 1990 discussion paper called for a clear statement of policies and commitments regarding provision of housing to First Nations. The current level of funding has remained unchanged since 1983. Each year, $92.9 million is allocated toward the construction of 2,400 houses and the renovation of 3,000 units.

14.28 Status Indians not living on reserves are entitled to receive basic housing assistance from their provincial and/or municipal governments. For status Indians living on reserves, this assistance is not available.

14.29 Inadequate and overcrowded housing, among other things, can contribute to social and health problems, such as sickness, marriage breakdown, alcoholism and child abuse. The financial results can be measured in terms of the higher cost of health care, social assistance benefits, policing and penitentiary services. Solving the housing problems on reserves could reduce the cost of health services and social assistance by improving social and health standards.

14.30 Furthermore, the federal Indian Act makes it difficult for Indian people to secure financing for on-reserve housing from lending institutions. Indian land and assets cannot be seized even when a loan is in default. Even the Central Mortgage and Housing Corporation requires a guarantee from the Minister of DIAND before it will provide loans for on-reserve housing. Private investors have no legal recourse in the event of default of payment. This has prevented development of free-market financing for on-reserve housing. Virtually no private risk capital flows into Indian housing.

14.31 A further constraint to adequate housing is that band members are reluctant to provide their own equity in on-reserve housing. The land tenure system under the Indian Act limits the right of bequest, lease or sale. The Crown has title to the land, and most houses are "owned" by the band and controlled by band councils. Accordingly, status Indians on reserves have no alternative but to depend on DIAND for adequate housing.

DIAND needs a new approach to solve the housing backlog on reserves.

DIAND needs solution to housing backlog

14.32 At March 1989, there were 58,758 housing units and 446 special services housing units (for senior citizens, etc.) on reserves. The annual supply of houses on reserves is not able to meet the normal replacement demand. DIAND estimates that satisfying the backlog of 10,000 to 11,000 housing units would cost up to $840 million in current dollars. We found that DIAND has no plan for solving this critical problem.

14.33 To address the backlog of on-reserve housing, DIAND should redirect its existing resources. Alternatively, DIAND should look for a new approach to permit and encourage private capital investment in the on-reserve housing market.

Department's response: *The Department agrees with the issues raised in this section; however, it proposes an alternative approach to resolving the issues.*

Our policy is based upon meeting social objectives and providing access to adequate, suitable and affordable housing. This is currently being achieved through a shared responsibility between the Department and Indian people and their communities. The Department is fully cognizant of the complex issues involved with on-reserve housing. To this end, the Department is consulting with aboriginal leaders across the country to develop a responsive policy framework and a co-operative approach to finding solutions.

1985 Amendments to the Indian Act (Bill C-31)

Background

14.34 In 1985, Parliament passed a series of amendments to the Indian Act known as Bill C-31. The objectives of the Bill were to remove discriminatory provisions from the Indian Act; to restore status and membership rights; and to give the bands control over their membership.

14.35 Prior to 1985, the Indian Act accorded status to any woman marrying a status Indian, whereas an Indian woman marrying a non-status man lost her own status and rights. Also, under the Act, the children of mixed marriages where the father was Indian automatically passed their status on to the next generation, but not where the mother was Indian. The major provision of Bill C-31 is to restore status to these women and to grant status to the children of Indian women and non-Indian men.

14.36 Another issue was the determination of band membership. Up to 1985, only the Registrar, a DIAND official, could make band membership decisions. At 30 June 1990, 232 of the 596 bands in Canada (39 percent) had taken this step towards Indian self-government. The Department still decides membership for bands that have not developed their own membership codes. Some bands have delayed developing membership codes because they fear legal action by applicants who have been rejected.

Observations and Recommendations

Implementation of Bill C-31 will cost over $2 billion

14.37 By 1990, about 80,000 Indians had gained status, adding 25 percent to the previous population of 358,000. This was 48 percent more than the number predicted by DIAND prior to 1985. DIAND estimated that its own costs for services to Indians and those of the Medical Services Branch of the Department of National Health and Welfare would approximate $300 million. In 1989, the Department revised its registration estimates to 86,453 and secured additional funding of about $900 million. Its total commitment reached over $1 billion, and the implementation period was extended from 1990 to 1994. The Department also estimates an additional $1 billion in costs for the next four-year period, not including National Health and Welfare medical services of up to $150 million per year.

14.38 Both the one-time and ongoing costs of C-31 are high. The greatest expenses pertain to housing, schools, and increased infrastructure for the people returning to reserves. The Department estimates that 21 percent of Indians gaining or regaining status want to return to the reserve, along with the 8 percent of new registrants who already live there, but they may be constrained by a lack of housing, band membership codes and band residency bylaws restricting the access of band members to the reserve.

14.39 Based on DIAND's predicted growth in the C-31 population, about 24,000 Indians and 20,800 non-Indian dependants will want to begin living on reserves within the next five years. Using an average of 3.4 persons per family, some 13,000 units will be needed to house them. Up to January 1991, the Department had constructed or renovated some 3,600 homes across the country for C-31 returnees. The Department plans to build 985 houses for C-31 returnees each year up to 1993-94. This will not be enough. Ontario alone has a defined need for 2,146 units for C-31 returnees. At an average of $50,000, including infrastructure, these units would cost more than $107 million.

14.40 Despite the government's assertion that no band would suffer as a result of Bill C-31, DIAND did not, at the time of our audit, have a financial plan to identify how and when the existing and future housing shortfall would be met. Furthermore, although DIAND was aware that some reserves could not physically accommodate the requirements for more housing, it did not put forward any possible solutions to this problem.

14.41 Some C-31 registrants have gained status but have not been accepted by a band. Two Indian organizations estimate that 9 out of 10 C-31 registrants in Alberta have no band membership. Some bands have introduced restrictive membership codes that effectively block C-31 people from joining the band. One example is a code that requires a period of on-reserve residency, yet allows only band members to live there. This usually occurs with wealthy bands that fear dilution of the band wealth and disruption of the existing band power structures.

Membership data is required for program planning and funding

14.42 Section 10 of the Indian Act enables bands to assume control of their membership and maintain band lists. As of June 1990, 39 percent of the bands controlled their membership lists, comprising approximately 188,000 people.

14.43 The transfer of these responsibilities to many bands means that DIAND no longer maintains, or has access to, a single comprehensive source of data on band membership and on-reserve population. DIAND has acknowledged that some bands are not able to maintain current, accurate and complete band lists. We noted that DIAND has not provided these bands with guidelines and training for adequate data maintenance. Nor does it have a quality control system in place to monitor the quality of the residency data in the Indian Register.

14.44 Without sound population statistics, DIAND's ability to justify funding requirements to Parliament may be jeopardized. Other federal departments, such as National Health and Welfare, and provincial governments also need accurate demographic information for program planning and funding.

14.45 The Department should, in collaboration with the Indian bands, develop and maintain a population information system that meets the needs of all stakeholders.

Department's response: *The Department is aware of the need for an improved information base and progress is being made in this area through the activities of DIAND's Quantitative Analysis Socio-Demographic Research Directorate.*

Bands successfully administer government-funded programs

14.46 DIAND indicated that certain bands and tribal councils are making notable progress in the self-administration of services for their members. They have achieved impressive results, using their own resources in concert with government funding.

14.47 The Nicola Valley Bands in British Columbia, the Paul Band in Alberta, and the Southeast Tribal Council in Manitoba illustrate what can be achieved in the way of socio-economic development and successful management of financial resources. We did not perform an audit of these cases, but relied on the perceptions of the Indian Chiefs and members of the tribal councils.

14.48 During the 1970s, these communities had little in the way of basic amenities, such as roads, schools and housing with running water and power. School attendance and educational attainment were very low, and a combination of poor job skills and lack of economic opportunities led to severely depressed levels of employment and income. Social problems were exacerbated by these factors.

14.49 Over the past 15 years, the situation in all of the above respects has improved. These tribal council and band administrations have provided the necessary leadership to improve community life from an economic, social, health, personal development and cultural standpoint.

14.50 The tribal councils and bands studied have given priority to implementing responsible financial administration. The scale of their financial operations has grown to impressive levels, with the creation of various enterprises in addition to the administration of programs inherited from DIAND. According to a tribal council, the devolution of responsibility by DIAND has improved the efficient and effective use of government funds. DIAND officials expressed considerable praise for the financial performance of these administrations.

Strong leadership and effective financial management are key factors in band success.

14.51 The factors that appear to have contributed significantly to their success include:

- a strong management capacity to develop clear goals and objectives;
- a sound leadership from Chief and Council and community support in the establishment of plans and priorities;
- effective financial management systems;
- a competitive process in filling band employment positions; and
- a high priority for education, management and human resource development.

14.52 The reserves involved are not rich in natural resources, and many are somewhat remote in their location. Thus, the factors that contributed to the success of these bands could do the same for other bands. However, they would not necessarily apply to all bands and tribal councils because some do not yet have the management capability or the economic resources to be self-sufficient.

Specific Claims

Background

14.53 The settling of specific claims is listed as a priority in DIAND's 1990-91 Estimates. For that fiscal year, the operating budget of the Specific Claims Branch (SCB) was $2.3 million. The federal value of settled claims from the mid-1970s to December 1990 has exceeded $100 million.

14.54 The mandate of the SCB is summarized in its published policy in force at the time of our audit. This policy, issued in 1982, states that "the Government of Canada is committed to resolving specific claims (against the government) in a fair and equitable manner." The need to address obligations to Indians has been acknowledged by successive governments over the past several decades.

14.55 Specific claims are those relating to lawful obligations as determined by the government. Typically, these obligations relate to issues stemming from alleged government non-compliance with treaties and legislation affecting Indians and their lands and other assets. Claims include allegations of improper surrender of reserve lands; lack of compensation for lands taken; failure of the government to provide promised ammunition and livestock; and failure to protect the environment, which is crucial to the Indian way of life. Also included are cases where the federal government is accused of having mismanaged Indian assets.

14.56 Specific claims differ from comprehensive claims, which are based on claimed aboriginal title to land and the traditional occupancy and use of such land, including hunting, fishing and trapping. We reported on comprehensive claims in 1990.

14.57 DIAND has internal guidelines and general criteria for specific claims preparation, review and compensation. It has documented policies and procedures, as well as an information system to report on claims inventory and disposition.

14.58 The Department of Justice (DOJ) reviews each claim to determine if, in its opinion, the claim has merit under the policy of meeting "lawful" obligations. DOJ analyzes the legal issues in a claim and advises DIAND on the basis for accepting or rejecting the claim and for assessing compensation. When requested to by DIAND, it may participate in negotiations with the bands. DOJ's involvement directly affects the speed, quality and cost of a claim and its results.

14.59 Other federal departments, such as National Defence, are sometimes party to a claim when damages to Indian property are alleged to have been caused by their operations. Similarly, the resolution of claims can be significantly affected by the involvement of provincial governments, particularly where Crown land or other resources are under provincial jurisdiction.

14.60 Following are the major steps in the claims process.

- An Indian band researches, prepares, documents and submits a claim.
- DIAND counter-researches the claim.
- DOJ provides legal opinions to DIAND on the validity of the claim.
- Negotiations are conducted to assign values and determine compensation.
- An approved settlement agreement is reached.
- The agreement is implemented as authorized by all parties to the claim.

14.61 Settlement compensation may take the form of cash, land adjustment or other arrangement. Written agreements between DIAND, the claimants and other parties are approved by band members and by the Minister of DIAND, Treasury Board and Governor in Council, as applicable.

Audit Objective and Scope

14.62 Our audit included a review of the claims process and results in terms of timing and validation of claims, establishment of compensation, reporting of claims, and related matters.

14.63 We therefore reviewed the SCB mandate, policies, program results, procedures, and reporting. We also examined 17 cases, selected randomly within certain categories. These included settled claims, rejected claims and claims in process. No projection of the sample results to the entire inventory of claims is intended. However, our findings disclosed a pattern of issues within this sample.

Observations and Recommendations

Claims practices need re-assessment

14.64 **Independence.** The SCB and the claims process it administers are not independent from government. Accordingly, the SCB plays several roles because it must evaluate the issues from various perspectives – of Indians, government, and the public – but always with the knowledge that its claim evaluations will directly affect costs to the government.

14.65 From the claimants' perspective, the federal government has a conflict of interest in settling claims because it both sets and applies the criteria for claim evaluation and controls the negotiation process and funding. From a government perspective, DIAND has the authority and responsibility to act in the best interest of the Indian peoples while maintaining its accountability to the Canadian public for the funds used in the process.

14.66 **Claims policy.** In 1969, the Government of Canada stated as public policy that its lawful obligations to Indians, including the fulfilment of treaty entitlements, must be recognized. Its 1982 published policy, entitled "Outstanding Business - A Native Claims Policy", provides the current framework for processing specific claims.

14.67 This policy acknowledges that, for the sake of justice, equity and prosperity, claims must be settled without further delay. It also notes that progress in resolving claims has not met the expectations of the government or Indian claimants.

14.68 Our review of how this policy is being implemented raises concerns in the context of government pronouncements on needed improvements. For example, we noted that, despite the government's assertion of fairness, significant claims relating to events prior to Confederation are generally disqualified from consideration by DIAND. DIAND's reason for such exclusion is that, except in specific instances, pre-Confederation claims are not, in its opinion, obligations of the Government of Canada.

14.69 We note that the 1982 Charter of Rights (section 25) protects aboriginal, treaty or other rights pertaining to the aboriginal peoples, including rights that have been recognized by the Royal Proclamation of 7 October 1763.

14.70 We noted instances where DOJ delayed providing its legal opinion to DIAND on the validity of claims, pending the outcome of certain court cases. While we acknowledge the necessity in certain cases to await court decisions, DIAND could not readily determine if the application of court judgments to negotiating principles resulted in "better" settlements for all parties and, as such, justified the delays.

Over half of the claims received during the past 20 years are still in process.

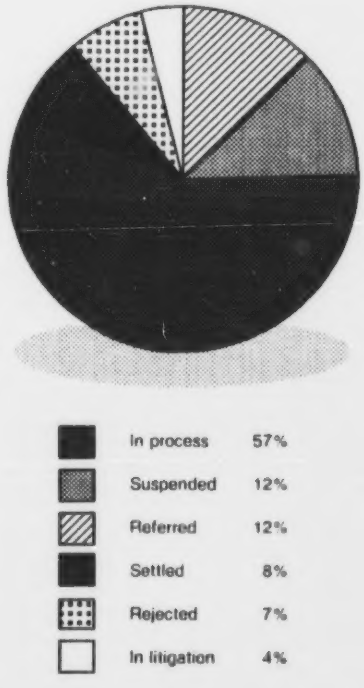
14.71 **Disposition of claims.** According to the SCB, about 600 claims have been received since inception of the claims process in the early 1970s. When the current claims policy was introduced in 1982, about 61 percent of the claims received up to that time had not been resolved. In 1990, at the time of our audit, 57 percent of all claims were still under review or negotiation. Eight percent of all claims had been settled and agreed upon by the claimant and DIAND, while 35 percent had been rejected or otherwise disposed of. Exhibit 14.3 provides details.

14.72 If the rate of claims intake and disposal of the past two decades continues, the Department could have a similar backlog 20 years from now. We believe this would be inconsistent with government commitments to improve the process.

14.73 **Claims submissions.** DIAND does not circulate detailed guidelines to the bands on how to complete a claim. Consequently, the

Exhibit 14.3

STATUS OF THE
593 SPECIFIC CLAIMS SUBMITTED
1971-1990



Source: Specific Claims Branch

quality and quantity of information provided by the bands to support their allegations may be inadequate for proper consideration of the claims. Long research periods may then be needed by DIAND to establish basic facts. This contributes to delays, frustrations and costs in the settlement process.

14.74 **Planning and control.** There is no planning and control framework for claims. For example, the three major parties to any claim (Indian bands, DOJ and DIAND) do not commit themselves in a written joint undertaking at the beginning of the process to achieve specific results within their respective responsibilities and within a specific time frame. Such a framework could include target milestones for certain phases in the claims process, such as research and validation. Without this, accountability for satisfactory results is elusive, and settlements may be slow and difficult to achieve.

14.75 We also noted that, although DOJ and DIAND work together in the claims process, there are no formal, documented terms of reference between these departments to establish their respective roles, responsibilities and levels of service. Our audit revealed that DOJ and DIAND do not always interpret their roles in the same way, which causes uncertainties in the process.

14.76 **Research funding.** Since 1976, DIAND has contributed about $50 million to Indian associations or bands to conduct claims research on behalf of claimants. DIAND's recent budgets for research contributions have approximated $5 million annually.

14.77 The contribution arrangements require recipients to provide DIAND with detailed progress reports that show the extent of research performed and the results obtained. However, none of the recipients, in a random sample of seven contribution arrangements, provided sufficient information in their reports to DIAND for assessment of compliance with this requirement.

14.78 Another condition requires recipients to have an audit performed of their financial statements. However, there is no requirement for an audit of compliance with the terms and conditions of the contribution arrangements. Although audit reports on the financial statements were provided to DIAND, these reports did not express an opinion on whether or not the research funds provided by DIAND were used for the intended purpose.

DIAND does not know to what extent $50 million in research funds have been used for the intended purpose.

14.79 **Management information and reporting.** Management information gathered by DIAND does not provide a basis for adequate control over the claims settlement process. Neither does it encourage accountability for results. For example, summary information is not always compiled to identify delays or other problems at the various stages in the process. Targets are not generally used to keep the cases moving, and actual time spent on each case is not captured. The use of such information could help identify potential for improvements in processing efficiency. As well, external reporting by DIAND in Part III of the Estimates is minimal. For example, the reported results of the claims process are not directly linked to costs, settlement values and time frames, and comparative trends are not disclosed.

14.80 DIAND financial records, used for Public Accounts reporting, list 194 cases in litigation as at 31 March 1990. Of these, 73 comprise a total claim of about $7.7 billion against the government. The other 121 do not specify a dollar amount.

14.81 Because DIAND identifies some claimants by the band name and some by the name of an individual, it cannot readily determine whether unresolved specific claims are properly included in the Public Accounts. Consequently, we are concerned that information provided to Parliament by DIAND may not be complete.

14.82 **Time required to decide a claim.** The need to accelerate the resolution of claims has been expressed by DIAND for many years and was confirmed by the Prime Minister in April 1991.

14.83 In our audit sample of 17 cases:

- Nine cases were settled in an average time of 7 years.
- Four cases were rejected in an average time of 4 years.
- Three cases were still in process after an average time of 11 years, and one had been referred to another branch of the Department.

14.84 DIAND estimates that it generally takes an average of seven years to process a case. Based on our review of individual cases, we believe that stronger commitments by all parties to expedite the process are needed if the desired reduction in processing times is to be achieved.

14.85 **Validating claims and determining compensation.** Disagreements between DIAND and the claimant bands may involve many issues: for example, valuation of livestock promised under treaty but not delivered; responsibility for paying consultants hired by Indians to help establish their claims; legal interpretations as to what constitutes a proper land surrender; use of appraisals; determination of acceptable costs for reinstating land after government damage; and general "legal" value of the claim.

14.86 We noted that DIAND and DOJ officials have expressed concerns over how compensation is being determined. In some cases, these concerns were rooted in the dilemma of legal rights vs. moral rights. We believe that DIAND and DOJ need to develop and implement a policy and written guidelines on how these issues should be addressed in order to best meet the federal government's commitment to resolve claims in a fair and equitable manner.

14.87 **Settlement compensation.** A significant factor in the implementation of settlement agreements is the treatment of compensation. There have been differences of opinion between DIAND and the bands on how to distribute compensation.

14.88 DIAND's treatment of compensation for assets of a capital nature, generally land or land resources, is governed by the Indian Act, which restricts Indian access to the funds generated by such assets.

14.89 Although most land settlements relate to loss of land and assets, we found a variety of compensation distribution arrangements. These included payments to an Indian corporation, payments to a band's capital account and payments to a band's revenue account. Bands have argued that these moneys are strictly for restitution and should therefore not be subject to capital rules. We would encourage DIAND to develop written criteria and apply a consistent policy for distribution of compensation. DIAND may wish to consider proposing amendments to the Indian Act in this regard.

14.90 **Key factors influencing claims results.** Ultimately, the resolution and disposal of claims are subject to:

- an establishment in fact that "wrongs" have been committed through action or inaction;
- an effective negotiating process conducted in good faith and with co-operation among all parties;
- an appropriate determination of compensation (by cash or other assets);
- the application of due care and sound judgment throughout the settlement process;
- an appropriate implementation of settlement agreements; and
- a demonstrated political will to resolve long-standing issues.

14.91 Because of the substantial complexities and human factors inherent in the above and in the case illustrations that follow, the difficulties encountered by claimants and the government are not surprising.

14.92 DIAND and the government should reassess the fundamental concepts and practices for settling claims, including:

- **the objectivity and independence of Specific Claims Branch;**
- **the application of policies for acceptance and valuation of a claim, including definitions of and criteria for determining "fairness" and "lawful obligation";**
- **the obligations and roles of other federal departments and their working arrangements with DIAND in the disposition of claims;**
- **the respective responsibilities of the federal and provincial governments in considering and resolving claims;**
- **the need to know how research funding for Indian associations is being used; and**
- **the consistency and appropriateness of compensation settlements.**

14.93 We believe that appropriate consideration of these matters by DIAND, DOJ and claimants and implementation of remedial action where applicable would constitute significant steps in improving the process and the results.

14.94 In April 1991, the government announced a major initiative in an attempt to address specific claims issues. It includes a specific claims commission; a fast-tracking process for dealing with claims of $500,000 or less; increased ministerial authority to approve settlement payments; and the consideration of pre-Confederation claims.

Case Illustrations

14.95 The following cases, selected from our sample of 17 claims, illustrate some of the issues and difficulties in the claims process as discussed in this chapter. No judgment is made here on the merit or final outcome of these cases.

Case 1

14.96 This band initially submitted its claim to DIAND in 1974 alleging, among other things, that its surrender of land to the Crown in 1901 was invalid.

14.97 The band later filed its claim in Federal Court, contending that the surrender was contrary to the intent of their treaty, to the disadvantage of the band. After further delays, the band submitted an amended claim to DIAND, which included allegations of fraud in the surrender of the land and its subsequent sale and purchase by third parties.

14.98 The alleged acts of fraud related to the establishment of a phony land syndicate to acquire reserve lands; the forgery of names on various documents; the failure of government officials to disclose the true value of reserve lands; the purchase of reserve lands by government officials through the use of secret agents; and other matters.

14.99 According to both the claimant and the government, a 1915 report of a Royal Commission investigation into the disposal of Dominion lands after 1896 suggested there were irregularities in the sales of the subject lands.

14.100 Although the government rejected the allegations concerning the validity of the surrender, it acknowledged, some 70 years after the Royal Commission report, that government officials had manipulated the disposal of the reserve land for their personal benefit.

14.101 The claimants sought compensation exceeding $100 million for loss of their land, resources and other damages. Nevertheless, they confirmed that "the basis for calculating much of the claimed compensation is unusual". In 1986, they settled for approximately $19 million.

14.102 DIAND files showed that there had been considerable deliberation in determining compensation. However, we found insufficient documented analysis to support over $7 million of the settlement.

Case 2

14.103 This claim was submitted in 1976, alleging an improper surrender of land in 1909. The band asked for the return of land and $12 million in damages for loss of its use.

14.104 Citing DIAND's lack of a decision, the band filed its claim in court in 1977 and increased its court claim to over $175 million. In response, the government filed a statement of defence in court.

14.105 About six years later, the band agreed to enter into settlement discussions with the government. We noted that DOJ questioned the validity of the claim in 1983 because it was not convinced that the government had breached its statutory obligations. However, in 1984, DOJ concluded that the surrender did not meet the requirements of the 1906 Indian Act.

14.106 Accordingly, DOJ recommended compensation of $2.5 million, covering the present value of lands not returned and compensation for loss of land use, minus the revenue generated on behalf of the band by the surrendered lands. A proposed ex gratia payment of $500,000 was included, apparently in lieu of costs and interest.

14.107 In 1984, the band proposed a counter-offer of approximately $5 million, representing the replacement value of the surrendered lands and costs. For purposes of settlement, DOJ recommended acceptance of this offer. DIAND agreed, and the band ratified the settlement in 1987.

Case 3

14.108 This band presented its claim for about $5 million in 1982, alleging that DIAND had not fulfilled its trust responsibilities. The requested compensation covered lost interest and other damages regarding DIAND's apparent failure to obtain and collect a proper return from the sale of surrendered land in 1903.

14.109 In 1986, DIAND notified the band that its claim had been rejected because DOJ considered the terms of the land sale "not unreasonable".

14.110 We noted, however, that DIAND questioned the legal arguments used to reject the band's claim. For example, DIAND was concerned that its inadequate collection of money from the sale of land and other actions may not have been in the best interests of the band.

Case 4

14.111 This claim for land and financial compensation (unspecified) was submitted to the Government of Canada and a provincial government in 1977. It alleged that the governments failed to maintain Indian reserve land as required by treaty and provincial legislation passed in 1914.

14.112 According to the claimants, both governments, since the early 1900s, permitted public settlement on Indian reserve land, and the most valuable parts of the claimed area have been developed as farm, tourist and recreation properties. Some of the claimed land is located in a provincial park.

14.113 Over the years, disagreements continued between the provincial and the federal governments on several issues relating to their respective responsibilities for resolving the claim. The disagreements included misunderstandings and difficulties relating to land surveys, Indian land entitlements, and authority to settle or dispose of the claimed land.

14.114 In 1978, a senior DIAND official recommended the establishment of a specific negotiating time frame acceptable to all parties in order to encourage federal-provincial agreement and expedite the settlement.

Nevertheless, no deadlines were established, and the case lingered.

14.115 We noted that DOJ considered the evidence ambiguous and inconclusive and consequently believed there was a degree of uncertainty as to the validity of the claim. However, according to the bands, the claim was being assessed with "no discounting for doubt".

14.116 In 1988, the governments offered a settlement of about $2 million, to be borne equally by Canada and the province, but the bands did not subject this offer to their ratification process because their own settlement proposal was, in their view, "brushed aside" by the government.

14.117 In April 1991, DIAND advised us that no settlement had been reached.

DIAND's response: *The Department agrees with the issues identified in this report.*

The Prime Minister announced revisions to the claims policy in April 1991. Changes include directions to resolve pre-Confederation claims; a fast-track process to deal separately with claims valued at less than $500,000; increased ministerial authority to approve settlements up to $7,000,000; an Indian Specific Claims Commission to independently review the grounds for acceptance of claims and the principles applicable to value claimants' losses; and a Joint Indian-Canada Working Group to review claims policy and process issues. Also there have been some administrative initiatives undertaken to clarify and improve organizational and control processes.

Further, the issues cited in this section are being reassessed with the assistance of the Joint Indian-Canada Working Group. Several initiatives have already been taken, including the establishment of the Indian Specific Claims Commission to review claim decisions, the definition and description of the criteria for presentation and acceptance of claims, increased accountability for claims funding, and consistent determination of claims compensation. The allotment of federal-provincial responsibilities is being dealt with whenever major opportunities arise.

In response to the Auditor General's comment regarding research funding, it should be noted that, as a result of a program initiative, work is now under way to review the funding process with particular emphasis on more efficient reporting and monitoring mechanisms.

In respect to the Public Accounts, the Department has instituted procedures to ensure that specific claims information included in the Public Accounts will be complete starting with 1990-91.

Department of Justice's response: *To the extent of its involvement, DOJ agrees with the audit findings and recommendations on specific claims.*

Indian Oil and Gas Canada Production Assurance

Background

14.118 The mandate of Indian Oil and Gas Canada (IOGC), part of DIAND's Economic Development Sector, is to implement the Department's fiduciary responsibility in leasing Indian reserve lands for the development of resources and the collection of royalties through the authority framework provided by the Indian Oil and Gas Act and related regulations.

14.119 IOGC activities include negotiating, issuing and managing oil and gas permits and leases, and verifying oil and gas production, pricing and royalty calculations.

14.120 Private sector companies enter into agreements with IOGC to extract oil and gas from Indian reserve lands. The resulting revenues are a major source of Indian moneys under DIAND's fiduciary responsibility. In 1989, oil and gas revenues approximated $60 million.

Audit Objective and Scope

14.121 Since royalties are determined largely according to the production of Indian oil and gas reported by third-party leaseholders, we sought to determine if IOGC had adequate assurance that leaseholders were reporting their production completely and accurately. We therefore reviewed IOGC policies and practices for obtaining assurance of reported production. We did not attempt to detect errors in the amounts reported by third parties.

Observations and Recommendations

14.122 IOGC states that it obtains assurance primarily by analyzing production reports from oil and gas producers, performing site inspections and audits of producers' records, and relying on the production and reporting regulatory framework and measurement standards administered by provincial bodies such as the Energy Resources Conservation Board (ERCB) of Alberta. (References to the ERCB in this chapter should not be construed as a criticism of its work.)

14.123 IOGC also asserts that the nature of the oil and gas industry in Canada, particularly the interest of joint venture partners in resource exploitation, reduces the risk of errors in production reporting.

IOGC has limited evidence of production assurance

14.124 At the time of our audit, there were considerable gaps in IOGC documentation for the sources of assurance described in paragraph 14.122. For example, IOGC had not appropriately documented its policy and strategy for oil and gas production monitoring; the extent and results of its analyses of production reports received from third parties; the completion and disposition of its audits of producers' records; and the basis for and validity of its reliance on the work of the ERCB.

14.125 IOGC's assurance is affected by the risk of inadequate reporting by the numerous oil and gas wells, batteries (gathering points), companies and operators, and its assessment of necessary site inspections, cyclical reviews and priorities for the surveillance of measuring devices, the review of operating procedures and the audit of production records.

DIAND has not appropriately documented its production assurance relating to royalties.

14.126 The Indian Oil and Gas Regulations provide for government inspections of operator facilities and records. IOGC acknowledges the need for such inspections to help determine, among other things, the adequacy of production reporting. In 1988, IOGC initiated a program of inspections and field audits. As of December 1990, a small number of inspections and audits were completed, with both positive and negative findings. However, the absence of a well-defined monitoring policy and strategy means there is no required level of assurance against which to measure these results.

14.127 With respect to reliance on the ERCB, we found that IOGC did not co-ordinate its monitoring practices with those of the Board. It did not assess the ERCB's monitoring plans and reports to determine whether its coverage, methodology and results were adequate for IOGC purposes. IOGC acknowledged that the vast majority of wells in Alberta do not have an Indian band interest and therefore the ERCB's monitoring objectives would have limited relevance to Indian oil and gas. We noted that it is IOGC's policy to strengthen communications with the ERCB to their mutual benefit.

14.128 We are concerned that IOGC and the Indian bands will remain vulnerable to possible misreporting of oil and gas production until the documentation standards applied by IOGC are sufficiently improved to provide the assurance it needs.

14.129 IOGC should appropriately document its production assurance relating to royalties. This assurance should be supported by an oil and gas monitoring policy that includes a strategy for all inspection and auditing activities.

14.130 IOGC should ensure that a formal audit report is issued for every audit and that the disposition of all audit findings is appropriately documented.

Department's response: *DIAND agrees with the recommendations.*

IOGC has carried out a broad-based program, both in respect to inspection of field operations and through paper trail reviews of company compliance with production reporting requirements. All reporting discrepancies have been addressed and appropriate corrective action taken.

Procedures are being put in place to ensure that both monitoring policy and the disposition of audit findings are appropriately documented.

Chapter 15

Department of National Revenue - Customs and Excise
Customs Operations

Department of National Revenue - Customs and Excise

Customs Operations

Main Points

15.1 Customs enforces its own legislation and helps to administer over 70 other pieces of legislation. The Department also strives to serve the public by facilitating the movement of goods and people across the border. We examined two programs that Customs administers on behalf of other departments – illegal drugs and hazardous materials. On the facilitation side, we examined certain initiatives taken to streamline processing in traveller and commercial operations (paragraphs 15.6 to 15.16).

15.2 For the traveller initiatives, we found that planning needs to be improved. While the Department conducts its third pilot test of the special/express lanes concept, congestion and delays at many border crossings continue. We also found that facilities constraints hamper processing. The most recent version of the cash register system looks promising (15.17 to 15.46).

15.3 The commercial initiatives we examined are well received by brokers and self-clearing importers. They advised us that the initiatives have contributed to earlier access to goods and improved quality control in preparing accounting documents (15.47 to 15.57).

15.4 Seizure statistics show that the Department is a major contributor in preventing illegal drugs from entering Canada. However, it lacks a comprehensive risk assessment at the departmental level and a departmental interdiction plan; and drug intelligence gathering, sharing, analysis and dissemination have not been fully explored. We also found that the tools and facilities needed to carry out examinations for illegal drugs are not always available. Training and performance measurement for this enforcement activity could be improved (15.58 to 15.82).

15.5 The Department has a role to play in controlling the importation of hazardous materials but this role has not been clearly established. There is no defined program in place for dealing with hazardous materials. With the exception of the Department of the Environment, there are no agreements with other departments on the enforcement for hazardous materials. The implementation of the agreement with the Department of the Environment has just started (15.83 to 15.108).

Table of Contents

Paragraph

Background 15.6
- Customs Operations is one of the Department's most visible components and has the largest allocation of staff (15.6)
- In addition to revenue collection, Customs exercises import and export controls at ports of entry (15.8)

Audit Scope and Objective 15.13

Travellers at Land Border Crossings 15.17
- There has been a phenomenal growth in the number of travellers entering Canada (15.17)
- Pilot testing of the special/express lanes initiative is continuing (15.20)
- The cash registers initiative looks promising (15.31)
- Inadequate land border facilities could undermine Customs' enforcement and facilitation efforts (15.37)

Release and Accounting for Commercial Goods 15.47
- The initiatives are well received by external users (15.49)
- Program evaluation is under way (15.54)

Illegal Drugs 15.58
- Canada is vulnerable to the illegal drug trade (15.58)
- The Department plays a major role in drug interdiction (15.61)
- Inherent risk assessments are isolated; the gathering, sharing, analysis and dissemination of intelligence have not been fully explored; and there is no departmental interdiction plan (15.66)
- Necessary tools and facilities are not always available; training could be improved (15.75)
- Performance measurement is lacking (15.79)

Hazardous Materials 15.83
- The legislative framework for regulating hazardous materials is complex and involves various federal departments (15.83)
- The Department has a role to play in controlling the importation of hazardous materials (15.89)
- There is no defined program to deal with hazardous materials (15.92)
- Customs' participation in inspecting hazardous materials at ports of entry is infrequent (15.98)

Exhibits

15.1 Travellers Entering Canada and Commercial Entries Processed
15.2 Monthly Classification Error Rate for Eight Major Brokers
15.3 Points of Entry
15.4 Seizures of Illegal Drugs by Customs

Department of National Revenue - Customs and Excise

Customs Operations

Background

Customs Operations is one of the Department's most visible components and has the largest allocation of staff

15.6 Customs Operations is one of seven branches in the Department of National Revenue - Customs and Excise. It is the most visible component of Customs activities; Customs inspectors can be seen at almost all ports of entry into Canada. In addition to the headquarters operations, there are 10 regional offices and about 560 locations across Canada.

15.7 The Branch accounts for approximately 7,300 person-years, with an annual budget of about $400 million for 1991-92 (the department-wide budget for 1991-92 is 14,300 person-years and $956 million). Its many responsibilities include all traveller, commercial, postal and courier operations; regional appraisal and adjustment of tariffs and duties; and program development, management and support to operations. The valuation, assessment, evaluation, adjudication and legislative development for tariff purposes are carried out by the Customs Programs Branch.

In addition to revenue collection, Customs exercises import and export controls at ports of entry

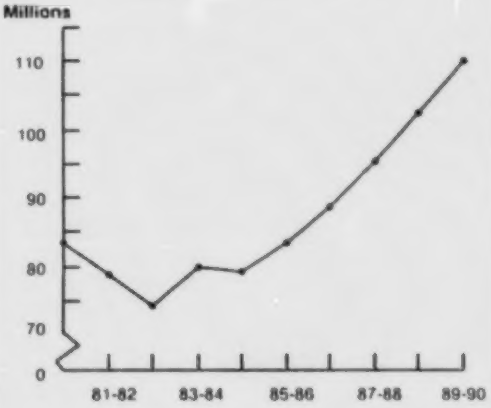
15.8 The Customs and Excise program mandate is to collect duties and taxes, to protect Canadian industry and society by controlling the movement of people, goods and conveyances entering or leaving Canada, and to protect Canadian industry from unfair foreign competition.

15.9 In addition to major statutes applying to the Department — the Customs Act, the Customs Tariff, the Special Import Measures Act, the Excise Act and the Excise Tax Act — Customs also administers over 70 pieces of legislation on behalf of other departments.

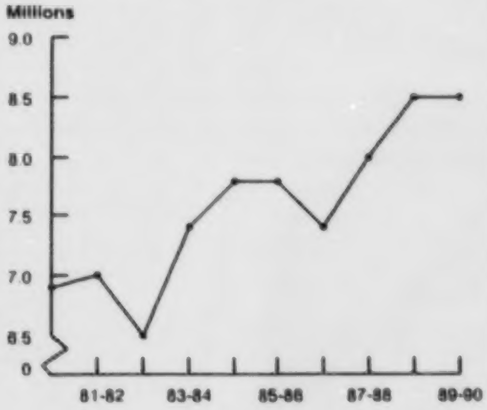
15.10 The Customs Operations Branch collected $5.2 billion in import duties and $3 billion in federal sales tax on imports in 1989-90. In addition to revenue collection, the Branch exercises a variety of regulatory controls at all ports of entry in discharging its mandate. Customs shares many of these regulatory control functions with other departments, some of which, like the departments of Agriculture and Immigration, have staff resident at certain Customs' locations. Other examples include the verification of import and export permits for the Department of External Affairs, the gathering of import data for Statistics Canada, and the interdiction of illegal drugs in conjunction with the Royal Canadian Mounted Police (RCMP) and other law enforcement agencies.

15.11 The Customs environment has undergone significant changes in recent years. In 1988, Canada adopted and implemented the Harmonized Commodity Description and Coding System, a new tariff system. This, coupled with technological advancement and the Department's objective to streamline commercial operations, led to the introduction of the Customs Commercial System — a major automated system which supports the processing of commercial cargo. The Free Trade Agreement with the United States, implemented in January 1989, established a schedule of tariff reduction and elimination over a 10-year period which has increased the complexity of Customs' commercial operations. With the introduction of the goods and services tax (GST) in January 1991, the Department had to implement systems to collect the GST on imports. In the meantime, there has been a significant increase in the volume of goods and travellers entering Canada (Exhibit 15.1). The increase in traffic volume, the changes in the program environment and the introduction of the Customs Commercial System all affect the way Customs operates.

Exhibit 15.1



TRAVELLERS ENTERING CANADA



COMMERCIAL ENTRIES PROCESSED

Source: Customs and Excise, Customs Operations

There has been a marked increase in the number of travellers entering Canada and the number of commercial entries processed over the years.

15.12 Customs operates under the principle that the majority of the public voluntarily complies with the law, especially when they are well informed about it. The Department supports this principle through selective enforcement against those who try to evade the law. The Customs 2000 document announced by the Minister of National Revenue in March 1990 represents a blueprint for the Department's Customs operations to the year 2000. It advocates the streamlining of the movement of low-risk goods and people across Canadian borders and an enhanced enforcement program based on risk analysis and selectivity, supported with a system of appropriate sanctions and penalties. The facilitation aspect, streamlining movement of goods and people, is an integral part of Customs' responsibility to serve the public. In this combination of duties, the Department states that it is mindful of the challenge to maintain a balance between facilitation and enforcement.

The Department states that it is mindful of the challenge to maintain a balance between facilitation and enforcement.

Audit Scope and Objective

15.13 Our audit focussed on Customs Operations activities. To reflect Customs' own balance between facilitation and enforcement, we selected both facilitation initiatives and enforcement programs for examination.

15.14 On the facilitation side, we examined Customs initiatives undertaken for both traveller and commercial operations. There has been a phenomenal growth in the number of travellers entering Canada in the past few years and in the number of Canadians travelling and shopping south of the border. One notable result has been long line-ups at highway crossings, particularly on weekends and during holiday seasons. We reviewed the Department's response to this changing traffic volume and pattern and examined two departmental initiatives — the special/express lanes and the cash registers at land border crossings. In the area of commercial operations, there has been a comparable increase in incoming commercial cargoes. We audited two initiatives — release of commercial goods on the basis of minimum documentation and electronic transmission of accounting data.

15.15 We examined two of the many regulatory programs that Customs enforces at ports of entry by providing an initial screening process — illegal drugs and hazardous materials. In 1990, our Office reported on federal law enforcement for illegal drugs by the RCMP. We addressed co-ordination between the RCMP and Customs. This audit examines Customs' role in interdicting illegal drugs. We selected the hazardous materials program because environmental issues are of concern to all Canadians. Appropriate control over importation of hazardous materials at border points could save time, money and effort in clean-ups and better protect our environment. We did not audit revenue collection by Customs, and have deferred plans to audit enforcement and collection of revenue because of the tariff rate reductions arising from the Free Trade Agreement and the recent introduction of the goods and services tax.

15.16 Our examination was carried out at headquarters in Ottawa and 8 of the 10 regional offices. We also visited many ports of entry and Customs locations within these regions. For the two facilitation initiatives on the commercial side, we interviewed 44 brokers and self-clearing importers and representatives of the Canadian Association of Customs Brokers and the Canadian Importers Association for feedback. These brokers and importers account for over 70 percent of the volume of electronic transmission of accounting data for incoming commercial cargo.

Travellers at Land Border Crossings

There has been a phenomenal growth in the number of travellers entering Canada

15.17 The number of travellers entering Canada has increased significantly in recent years. As shown in Exhibit 15.1, it exceeded 100 million in 1988-89 and 110 million in 1989-90. Preliminary data for 1990-91 show that the upward trend is continuing. Vehicle traffic, with travellers entering in passenger vehicles or tour buses at highway ports, accounts for a major portion of the volume as well as the increase. Many of these travellers are same-day return Canadian residents and cross-border shoppers from Canada.

15.18 The increase in the number of travellers and cross-border shoppers has led to congestion at many land border crossings, causing long line-ups and increased waiting times, particularly on weekends and holidays. While the full extent of the increase in traffic volume was not predictable by Customs, the resulting congestion has placed additional pressure on the inspectors at the Department's primary inspection line booths, and on officers conducting secondary examinations or computing duties and taxes and receiving payments from taxpayers. This increases the risk of compromising inspection efforts and loss of revenue. The special/ express lanes initiative was taken to create a streamlined process to move travellers with no goods to declare quickly through Customs inspection. The new generations of cash registers were introduced to expedite the payment process and assist in tariff coding and rating for revenue collection purposes.

15.19 We looked for adequate planning for these initiatives, including need and cost-benefit analysis, the use of cost-effective and up-to-date technology, and the use of performance measurement information by management to assist in monitoring and improving upon the initiatives.

Pilot testing of the special/express lanes initiative is continuing

15.20 At land border crossings, all passenger vehicles must stop and report individually to the primary inspection line booths for Customs inspection, including immigration clearance. The traveller is either cleared for entry, referred to the Customs office for the filing of a declaration and payment of duties and taxes owing on goods brought back into Canada, or sent for a secondary examination to other Customs inspectors or the appropriate officials.

15.21 The special/express lanes concept was designed to minimize the processing time at the primary inspection line booths. Qualifying travellers could use these lanes and be stopped for immigration clearance only or drive through with no requirement to stop. The initiative was intended primarily for frequent travellers and local commuters in communities near the Canada-United States border with no goods to declare, who had been absent from or were entering Canada for less than 24 hours.

15.22 The special lanes project was launched at three bridges in Ontario, with plans that it would run from 1 August to 31 October 1990. Frequent travellers with no goods to declare were to complete declaration cards and place them in the front windshields of their vehicles. At a dedicated lane, the Customs inspector at the primary inspection line checked for the cards and asked only immigration questions. The dedicated lane was to operate only during specific hours of the day.

15.23 The express lanes project was tried at a tunnel crossing into Ontario from 27 August to 14 December 1990. Like the special lanes project, travellers qualified only if they had no goods to declare. Unlike the other project, users had to first apply for an identification symbol for their vehicle and an individual permit. Customs, with assistance from Immigration officials, performed background checks and approved applications only if the applicant had no criminal record or record of other violation of Customs and Immigration laws. Approved users placed their symbol in the front windshield and proceeded slowly through dedicated express lanes, showing their permit. Customs inspectors checked for the symbol and the permit and did not have to stop the vehicle for questioning. As in the special lanes project, the express lanes only operated during specific hours of the day.

15.24 Neither project has been successful because of the low utilization rates. Although 11 percent of travellers qualified for the special lanes at two of the bridges, only 0.5 percent used them. In fact, the project at these two sites was discontinued after five weeks, seven weeks ahead of schedule. Regular lanes were processing about 125 vehicles an hour; the special lane was only processing, on average, 3 vehicles an hour. At the third site, about 40 vehicles an hour were processed in special lanes, compared with 100 to 140 vehicles in regular lanes, and this project was completed as scheduled. Utilization of the express lanes at the tunnel crossing averaged 65 vehicles an hour and was up to 105 vehicles from 5 p.m. to 6 p.m. on weeknights. However, the regular lanes were processing 210 vehicles an hour in the same time period. As no stopping was required in the express lanes, their use was well below capacity.

15.25 The Customs Operations Branch conducted a post-implementation evaluation of the initiative in March 1991. It concluded that these pilot projects were underutilized because few travellers had nothing to declare.

15.26 We found minimal evidence of pre-planning for the projects. It is the Department's view that the projects did not merit an extensive planning exercise because of the tight time frame necessary to implement them in time to give some assistance to their inspection staff during the summer rush and the fact that they were done at nominal cost. However, the issue of border congestion is of major significance. The objective and the problem to be addressed by these projects have not been clearly defined. There was no analysis to assess the effect that this initiative might have on cross-border shopping and revenue collection. It was also unclear to what extent this initiative would help resolve the problem of border congestion. For example, before the projects were launched, there was no research or analysis of travellers' profiles such as information on their residency status, departure and destination points, volume trends during the day and over the course of a year, the mix of same-day return trips and multi-day trips, and the goods they carry which have to be declared. The standards for the level of service to be achieved in this type of initiative have also not been set.

15.27 In addition, there was little marketing to promote the initiative and encourage eligible travellers to take advantage of the service. The express lanes project was delayed from 1 August to 27 August to permit more individuals to apply, so there would be enough approved travellers to justify starting the project. Vehicles had difficulty getting to the dedicated lanes because of restricted space in the entry area to the primary inspection line booths; this also contributed to the underutilization of the dedicated lanes. The issue of inadequate port facilities is further addressed in paragraphs 15.37 to 15.46.

15.28 We were advised that the projects at the three bridges and the tunnel were launched on short notice to respond quickly to operational pressures and to provide immediate relief. The ports had less than three weeks to produce and distribute the brochures and promote the initiative.

We are concerned that the pressure arising from border congestion increases the risk of compromising Customs enforcement efforts, including revenue collection.

15.29 During our regional visits, we noted the development of another variation of the special/express lanes concept, permitting pre-approved travellers to make a voluntary declaration of goods brought back to Canada and pay on credit. It was announced in March 1991 and is planned to run from May 1991 to March 1992 at one port. This third pilot addresses the finding from the two previous projects that most frequent travellers have goods to declare for duty and tax purposes and, at the same time, tests the feasibility of an alternative duty collection system. It is too early to determine the results of this project.

15.30 The cross-border shopping and traffic congestion at many highway ports have persisted for the past few years. With the reduction or elimination of duties under the Free Trade Agreement, the perceived price difference of goods in the United States, and a relatively stable Canadian dollar, the trend continues. We are concerned that the pressure arising from the congestion increases the risk of compromising Customs enforcement efforts, including revenue collection. We understand the Department's need to conduct pilot testing. However, two years after the implementation of the Free Trade Agreement, the Department continues in a pilot mode and little has changed.

The cash registers initiative looks promising

15.31 When travellers declare goods in excess of their exemptions, inspectors at the primary inspection line booths refer them to Customs' secondary counter where duties and taxes are computed and paid. The new tariff system, the Harmonized Commodity Description and Coding System, contains over 26,000 tariff codings with which Customs officers have to contend. The congestion at border crossings adds to the difficulties of Customs officers, creating a second line-up at the secondary counters. Until recently, the system for computation and payment of duties and taxes was completely manual; the cash registers initiative was introduced to address these concerns.

15.32 In February 1989, a pilot test of the cash register system was initiated at a highway port; a second test of the same system was implemented at an airport in June 1989. Shortly after installation, shortcomings in the system became evident. Processing was only partially automated; duty rates continued to be determined manually. Further, these cash registers were equipped to handle only up to 500 of about 26,000 existing Harmonized

System codes. Some manual tariff classification was still needed, and some tariff items had to be grouped together because of the cash register coding limitations. The system was also slow in printing. While it is an improvement over a completely manual process, it does not meet the needs of port operations — to reduce the processing time further and minimize the chance of compromising tariff coding and revenue by grouping tariff items.

15.33 Despite these known shortcomings, management decided that the system was needed to provide relief from handling collections manually. Regional management for two ports declined to use the system because it did not meet their operational requirements. One of them, Windsor, took the initiative to develop a second generation of cash registers and began testing it in December 1989 for a period of three months. In the meantime, 21 sites in all installed the first generation cash register system at a cost of approximately $400,000.

The Travellers Entry Processing System looks promising and is a definite improvement over the previous pilot.

15.34 The refined version of the second generation system, known as the Travellers Entry Processing System, is fully automated and is capable of handling the full range of Harmonized System codes. The Travellers Entry Processing System was accepted by the Department and has been installed at 22 new sites. The Department plans to convert the first generation system to the new system at the other sites, and expects that it will be able to use about $170,000 worth of hardware from the first generation cash registers.

15.35 At the end of the audit, the Travellers Entry Processing System looks promising and is a definite improvement over the previous pilot. However, the planning for the initiative could have been improved. The semi-automated system was put in place as a stopgap measure without the operational requirements having been fully researched. This delayed the possibility of a solution to the concerns for almost a year, leading to potential loss of productivity and forgone revenue. Furthermore, some additional direct costs were incurred and there will be a need for further training of Customs officers when the system is converted to the Travellers Entry Processing System.

15.36 The Department should determine level of service standards for processing travellers at land border crossings and take action to expedite processing time at major ports, including reviewing the feasibility and applicability of the current special/express lanes pilot test, and analyzing travellers' profiles at these ports. In addition, there should be a requirement for minimum documentation of pre-implementation planning for new projects, defining the objective and analyzing the problem, to justify the projects and to facilitate the challenge and evaluation by management.

Department's response: *The Department is currently working on possible solutions to expedite traveller processing times at major ports including the pilot testing of special/express lanes which addresses the analysis of traveller profiles. Levels of service standards will be determined after the pilots. The Department has in place policy and guidelines dealing with the management and documentation of projects. In the case of the special/express lanes projects, the tight time frames and the limited costs involved (less than $65,000) did not warrant the extensive planning process which is appropriate for a larger project.*

Inadequate land border facilities could undermine Customs' enforcement and facilitation efforts

15.37 Our examination of both the special/express lanes initiative and Customs' efforts to interdict illegal drugs indicated that inadequacies in land border facilities could act as a constraint to facilitation and enforcement efforts. As a result, we examined land border facilities and their management as they relate to facilitation of travellers and drug interdiction at land borders.

15.38 We looked for adherence to capital property management principles consistent with those contained in the Treasury Board Administrative Policy Manual. Good management principles call for systematic assessment of the operating condition and performance of capital properties relative to current and future needs, and the development of long-term capital plans identifying strategies for property acquisition, maintenance, preservation, renewal and disposal. We also looked for compliance with planning procedures and facility requirements set by the Department.

15.39 Customs owns and operates facilities at land border crossings. Facilities at most bridge and tunnel crossings are owned privately or by public authorities.

15.40 The Customs Administrative Management Manual requires that two types of site reviews be performed: an annual review to identify repair and maintenance requirements and the need for minor capital expenditures, and comprehensive cyclical site assessments to be performed every five years on each facility to assess maintenance, enhancement and replacement requirements. Each year, Customs updates its three-year capital plan. Regions are asked to identify and rank their capital requirements on the basis of the annual review and the most recent cyclical site assessment. These are reviewed and further ranked by headquarters, and funding is allocated accordingly. The Department has developed a Land Border Facility Design Guide setting out statements of requirements for all land border facilities. It also describes the functional components and performance requirements for the construction of new facilities.

15.41 Annual site reviews are conducted by the regions. However, cyclical assessments are not being carried out on a systematic basis to ensure that all facilities are covered every five years. In 1990-91, none of the facilities was assessed. Although the requirement to conduct cyclical assessments has been in place since 1988, only 49 of the 122 facilities owned by Customs had been assessed as of March 1991 and most sites do not have any comprehensive assessment to provide the basis for determining capital requirements. In addition, many of the existing assessments reflect only the condition of the buildings and do not identify operational deficiencies or variances from benchmarks provided in the Guide. As a result, not all deficiencies are identified for consideration and inclusion in the capital plan, which minimizes the likelihood of their being addressed.

Planning for physical facilities needs to be considered at the same time as that for other Customs 2000 initiatives.

15.42 The Guide also does not provide guidelines on the number of primary inspection line booths needed or parking spaces and inspection bays required, given a particular traffic demand level. Furthermore in planning for facilities, there is no requirement to compile delay statistics or analyze how the physical facilities might have been a cause of the delays. Nor is there a data base of all owned facilities with information on their condition, records of their capital investment, repair and maintenance actions and their replacement planning.

15.43 With limited resources, only some of the proposed projects in the capital plan receive funding each year. We found that ports requesting essential operating facilities as far back as 1988, such as construction of a secondary inspection garage, are still awaiting funding. Search rooms are needed to support enforcement for illegal drugs. The Guide also specifies requirements for search and holding rooms. Our review of the 1991-92 capital plan showed that at least 16 ports still do not have search rooms.

15.44 Similarly, some facilities are less than adequate at bridge and tunnel crossings not owned by Customs. For example, at the tunnel where the express lanes project was implemented, regional managers told us that they have tried without success to have two primary inspection line booths replaced for the past six years. The booths have deteriorated to the point where they cannot be used.

15.45 Inadequate land border facilities hamper processing and increase the risk of undermining facilitation and enforcement efforts, including revenue collection. Under Customs 2000, many initiatives are being planned. Planning for physical facilities needs to be considered at the same time to support these initiatives.

15.46 The Department should integrate port facility planning and management with operational requirements planning, develop and maintain a data base of the facilities and their pertinent information, and take action to ensure that facilities provide adequate support for current and future operational needs.

Department's response: *The Department has established a Facilities Section within Customs Operations Branch to act as a focal point in the management of facilities to ensure operational requirements are integrated into facilities planning. An automated inventory of facilities is being developed and, subject to funding availability, will be further developed in 1991-92. As part of the Customs 2000 planning the Department has established a working committee to examine facility projects in the planning stages and those under construction.*

Release and Accounting for Commercial Goods

15.47 We examined two components of the Department's Customs Commercial System — one which facilitates the release of, and the other the accounting for, commercial goods. The Release on Minimum Documentation initiative was taken to streamline the processing of commercial cargo, permitting the release of goods to qualified importers and brokers before duties and taxes are paid. The Customs Automated Data Exchange initiative was introduced to allow electronic data interchange between brokers or self-clearing importers and the Department to account for the importation of commercial goods.

15.48 In our examination, we looked for the achievement of intended benefits to external users, the use of cost-effective and up-to-date technology, and the collection and use of performance measurement information to assist management in monitoring and improving upon the initiatives.

The initiatives are well received by external users

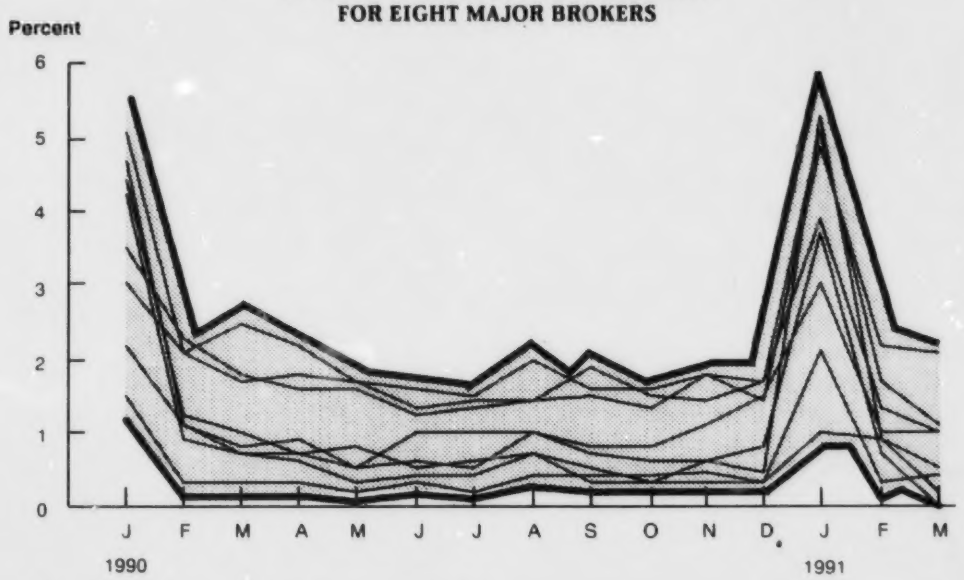
15.49 The primary objective of the Release on Minimum Documentation (RMD) initiative is to reduce the release time for clearance of commercial cargo. The feedback we obtained from brokers was very positive. Many of them advised us that the initiative has contributed to earlier access to goods because they are able to prepare release documentation much more quickly under RMD, and this has allowed them to focus on improving service to their clients rather than on paperwork. However, the brokers and importers we interviewed had only estimates and could not provide actual data on reduced clearance time as a result of RMD.

In the view of most of the users we interviewed, the Customs Automated Data Exchange initiative has been valuable to their business.

15.50 The Customs Automated Data Exchange (CADEX) component was implemented in January 1988 to reduce the time and cost of processing commercial entries and accounting documents for importers and brokers, to reduce errors by these users, and to improve the accuracy of tariff information provided to them. In the view of most of the CADEX users we interviewed, the initiative has been valuable to their business. It has helped those who wish to centralize their accounting operations and many have improved their

Exhibit 15.2

MONTHLY CLASSIFICATION ERROR RATE FOR EIGHT MAJOR BROKERS



Source: Customs and Excise, Customs Operations

Error rates associated with the Customs Automated Data Exchange System peak in the months of tariff rate changes.

control over the quality of the entry documents they prepare. Better tariff information is available to them on CADEX, and Customs requirements have been standardized, promoting a better understanding by importers and brokers. Some users have also benefited from extensive edit checks they themselves have incorporated. Users also advised us that CADEX implementation has been well supported by Customs and that its ongoing support is satisfactory.

15.51 Our interviews also showed that most non-CADEX users intend to use this automated system in the future and that they have been encouraged to participate.

15.52 Many of the users we interviewed said that the intended benefit of reducing time and costs has not yet been fully realized. Nevertheless, most users are optimistic about future savings. In their view, with the development of sophisticated systems and the support of some classification and rating specialists, they will improve productivity and staff mix.

15.53 With respect to the objective of reducing error rates, users advised us that they had experienced problems with CADEX when there were major updates to the tariff rate data base. We charted the classification error rates of eight major brokers by month from January 1990 to March 1991 (Exhibit 15.2), and noted that error instances peaked in the month of January. Tariff rates are updated at the start of each calender year to reflect changes such as those relating to the Free Trade Agreement with the United States. The Department disseminates rate change information to brokers and importers but, at times, has failed to update the CADEX database properly. As a result, users' documents with correct tariff rates were rejected by automated systems in the Department. Users had to submit entries with the incorrect codes and rates and make adjustments after the CADEX database has been corrected, or have their submissions rejected.

Program evaluation is under way

15.54 When reviewing performance measurement for the Release on Minimum Documentation initiative, we noted that there has been no level of service standard set for release time. This makes it difficult for management to measure efficiency and conclude on the level of success in achieving the objective of reducing release time.

15.55 The performance measurement system for CADEX consists of a number of key indicators, including volume of transactions, response time, number of entries, number of rejects, and the breakdown of entry by type. The information is tracked over time for operational purposes.

15.56 The Department started a comprehensive program evaluation of the Customs Commercial System in January 1991. It evaluates the Department's success in achieving the system's objectives and making its major components fully operational and effective. The evaluation includes a formal survey of external and internal users' satisfaction and an examination of the technical performance of the computerized system against existing standards. The Department advised us that this evaluation is in the final stages of reporting.

15.57 The Department should review and determine the level of service standard of release time for commercial goods. It should also improve control over annual tariff data base updates.

Department's response*: The Department has developed release standards several times in the past, but has not implemented them for a variety of reasons, such as regional variances and cost considerations. Given the positive feedback from users of the system it is not justified to implement a complex measurement system, instead, the Department will conduct surveys from time to time to gauge client satisfaction with release time. In the future, with fully automated systems, the question of release time can be re-examined.*

The difficulty of performing tariff file updates relatively error free has been acknowledged for some time. A project was implemented 1 July 1991 to reduce errors. At that time over 800 Free Trade Agreement changes were made to the tariff data base relatively error free.

Illegal Drugs

Canada is vulnerable to the illegal drug trade

15.58 The illegal drug trade, with sales estimated at over $400 billion annually, worldwide, is one of the world's largest and most profitable businesses. Ten kilograms of opium purchased from a farmer in the producer country for about $1,400, when processed into heroin, can have a street value of $1 million in the consumer country.

15.59 Canada is particularly vulnerable to the illegal drug trade because of its size and the many points of access across the country – vast land borders, long coastlines, and numerous airports and landing strips (Exhibit 15.3).

15.60 Studies have estimated the number of Canadian users of illegal drugs at 2.5 million, creating a market of about $10 billion annually. In addition to human loss and suffering, this has resulted in significant social and economic costs to our society. Other studies show that the costs related to policing, the judicial system, incarceration, medical facilities and treatment, insurance, losses through crime and loss of productivity exceed $12 billion a year.

The Department plays a major role in drug interdiction

15.61 The Narcotic Control Act and the Food and Drugs Act regulate possession, trafficking, import and export and cultivation of certain narcotics and drugs, including marijuana, cocaine and heroin. The Customs Act provides Customs with the authority to assist in

Exhibit 15.3

POINTS OF ENTRY

Number of Points of Entry

Land & Rail	165
Water	241
Air	141
Total	547

Source: Customs and Excise, Customs Operations

Canada is vulnerable to the illegal drug trade because of its size and the many points of entry across the country.

enforcing all other Acts of Parliament with respect to smuggling of prohibited goods.

15.62 In 1987, Canada launched the National Drug Strategy to counter the illegal drug trade. This strategy enlisted five departments, of which National Health and Welfare was identified as the lead agency while Customs was given additional resources to interdict illegal drugs from entering Canada.

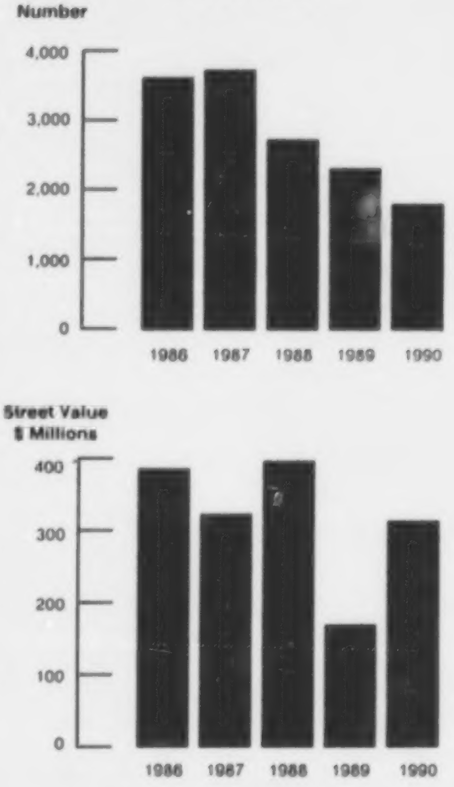
15.63 In Chapter 26 of our 1990 Report dealing with federal law enforcement by the RCMP, we noted a strained relationship between the RCMP and Customs, resulting in conflicts and duplications in drug interdiction operations. We recommended that their roles and responsibilities in drug enforcement be clarified. In February 1991, Customs and the RCMP signed a Statement of Principles to start addressing these issues. The Statement clarifies that Customs' jurisdiction in drug interdiction is only at the ports of entry.

15.64 Exhibit 15.4 shows the number of seizures of illegal drugs made by Customs, with their street value, from 1986 to 1990. Seizure statistics from the Department's drug reports show that it is a major contributor in drug interdiction efforts: from 1987 to 1989, Customs participated in seizures that amounted to, on average, 67 and 17 percent respectively of the total heroin and cocaine seized in Canada. The Department's intelligence and interdiction workforce involves some 250 direct person-years and an annual budget of about $13 million and is supported by Customs inspectors at the primary inspection line. The Enforcement Directorate at headquarters was reorganized in 1990 and the intelligence services function became a separate division. With the signing of the Statement of Principles, the Department continues to have a major role in drug interdiction at ports of entry.

15.65 In examining the Department's efforts in controlling drug smuggling, we looked for compliance with the relevant legislation, risk assessment and training, the availability of

Exhibit 15.4

SEIZURES OF ILLEGAL DRUGS BY CUSTOMS



Source: Customs and Excise, Customs Operations

Seizure statistics indicate that Customs is a major contributor in drug interdiction efforts.

necessary tools, equipment and facilities, and ongoing monitoring and periodic evaluation.

Inherent risk assessments are isolated; the gathering, sharing, analysis and dissemination of intelligence have not been fully explored; and there is no departmental interdiction plan

15.66 The Department is faced with the responsibility of controlling numerous widely dispersed ports of entry. Travellers entering Canada by air, highway or rail or as passengers on ferries, cruise ships or pleasure craft could carry significant quantities of illegal drugs on themselves or in their baggage. Drugs may also be concealed in commercial air, land or rail cargo, marine shipments and containers, mail and courier entries and any of these conveyances themselves. Exhibit 15.3 shows the types and number of points of entry into Canada. The high volume of traveller and commercial traffic makes enforcement action on the basis of risk assessments not only appropriate but necessary.

15.67 We found pockets of initiatives for assessing the inherent risk of smuggling illegal drugs into Canada through the various points of entry using different modes of transportation. For example, at the departmental level, we noted some efforts undertaken by headquarters to identify high risk countries of embarkation for air flights. In 1988, there was a project to study the risks of illegal drug entry through marine containers. Of the regions we visited, only the Pacific Region had conducted a risk assessment involving all ports of entry within the region.

> *There is no comprehensive assessment of the inherent risk of drug smuggling through the various ports at the departmental level.*

15.68 There is no comprehensive assessment of the inherent risk of drug smuggling through the various ports at the departmental level. Without identifying and assessing this risk, the Department's ability to develop and rank control procedures to form an effective departmental action plan for its participation in drug interdiction becomes restricted. International drug traffickers are well organized, resourceful, and are most responsive to enforcement activities. The Department needs a flexible and responsive interdiction plan formulated on the basis of a department-wide risk assessment to anticipate and counter the sophisticated operations of illegal drug smuggling.

15.69 For example, the 1988 marine container study led to the start of a container inspection program in 1989 at three major marine ports – Halifax, Montreal and Vancouver. As of March 1991, the program had resulted in several seizures, primarily at the port of Montreal. However, there had been limited success at the other two ports, and most of the seizures took place early on in the program. While the Department properly identified drug trafficking risks associated with marine containers entering Canada, drug traffickers could turn to other means and there was no departmental interdiction plan to help Customs to keep pace with them. A plan identifying all high priority targets and the related enforcement activities would have permitted the Department to vary the intensity of marine container examination and redeploy some of the resources to other drug interdiction activities.

15.70 The use of intelligence is an essential element of drug interdiction. We believe that a drug intelligence function provides additional preventive controls to complement a comprehensive risk assessment. The use of this type of intelligence provides strategic information and helps identify specific targets and facilitate advance planning for interdiction.

15.71 We found that the intelligence function emphasizes data collection and analysis on a case-by-case basis. Seizure reports are filed and copies are disseminated to the ports and regions manually or through the use of facsimile machines. Some overall analysis is performed to support staff training but there is no department-wide or inter-regional analysis of drug smuggling information for strategic use. At the regional level, due to the varying priorities assigned to drug interdiction, the functions of the intelligence officers vary widely. They range from collecting and maintaining intelligence and operating independently of interdiction efforts, to taking the initiative in developing a localized analysis system to support the interdiction function.

15.72 In recent years, there has been increased co-operation between Customs and other law enforcement agencies in the gathering and sharing of drug intelligence and interdiction actions. In particular, the Department has arrangements with the U.S. Customs Service and a number of other countries to exchange certain intelligence. There have also been cases of joint force operations involving Customs, RCMP, and provincial and municipal police forces resulting in drug seizures and arrests. We are also aware of a multi-force intelligence centre in the United States collecting and analyzing information from domestic and international sources, and disseminating the intelligence to law enforcement agencies at all government levels, including U.S. Customs Service. The RCMP has a unit which collects, analyzes and disseminates drug intelligence to most police forces. Customs could explore the merit of further participation and information exchange with the RCMP.

15.73 We believe the increased use of drug intelligence would further drug interdiction planning and efforts. This could provide better information in targeting specific travellers, conveyances or cargo, or supporting, on the basis of trend analysis, strategic actions included in the departmental interdiction plan.

15.74 There is no requirement to maintain a minimum level of drug inspection frequency in the regions to provide a deterrent effect. In addition to the development and ranking of control procedures, a departmental interdiction plan could foster drug interdiction efforts by setting minimum examination requirements at the regional level. We also found that drug enforcement actions in the regions received varying priorities. While the risks of drug smuggling vary from port to port, in some cases, members of the Drug Team were reassigned to conduct investigative work. Drug interdiction at ports of entry was left entirely to general Customs inspectors who have to help enforce over 70 other Acts of Parliament. In two of the regions we visited, the person-year for the vacant dog handler position had been left unfilled for some time.

Necessary tools and facilities are not always available; training could be improved

15.75 The drug enforcement activity in Customs is supported by tools, equipment and facilities including access to RCMP and local police intelligence systems, stationary and mobile X-ray equipment, detector dogs, and search and examination facilities at ports of entry.

15.76 The Department is an official user of the RCMP's Police Information Retrieval System and the Canadian Police Information system. Both systems are operated by the RCMP for all member police forces; the Police Information Retrieval System is owned by the RCMP. However, Customs' access to these automated systems is limited in some ports and not available in some others. At the larger ports where access is available, Customs does not have any automated system to help it compare and analyze the data in a single application. Where it is deemed necessary to place a lookout – specific targeting – the information is disseminated manually and there is no automated system to assist Customs inspectors in identifying and verifying the suspect traveller or conveyance.

15.77 Many search and examination facilities are not adequate for full inspections. As reported in paragraph 15.43, despite departmental guidelines calling for search rooms to support the National Drug Strategy, some have only makeshift rooms and others do not have suitable facilities. Many ports do not have vehicle examination facilities; some do not have adequate facilities for conducting inspections of commercial cargo for illegal drugs.

15.78 New inspectors are required to take a comprehensive introductory course on various aspects of Customs operations and members of the Drug Team are given a training course to target smugglers. There are no refresher or update courses. There is also no training provided on examining conveyances, particularly recreational vehicles, trains, cruise ships or aircraft, for concealment of illegal drugs.

Performance measurement is lacking

15.79 The interdiction and intelligence functions and the Drug Teams were established in 1984 to interdict illegal drugs entering Canada and to curb the supply of drugs by stopping organized international drug traffickers. The 1987 National Drug Strategy lent further support and resources to the Department's drug interdiction efforts.

15.80 We found that no analysis was being carried out to assess the effectiveness of the use of drug intelligence or co-operative efforts with other law enforcement agencies, or the reasons leading to seizures. Performance measurement data in drug enforcement consisted primarily of seizure statistics. There was also no analysis comparing seizures resulting from routine examination with those resulting from targeted examination and lookouts. Other performance indicators need to be developed for ongoing management monitoring and periodic evaluation.

15.81 There has been no program evaluation to date. However, the Department recently completed a plan to assess certain enforcement functions, including drug interdiction and intelligence. The plan to evaluate the effectiveness of drug enforcement initiatives implemented under the National Drug Strategy has been approved and is scheduled for the near future. We support the Department's plans for carrying out program evaluation, which could then be used in determining the most effective course of action.

15.82 The Department should conduct a comprehensive department-wide risk assessment, leading to a more flexible and responsive departmental operations plan to counter international drug trafficking actions and patterns, and set a minimum enforcement level in regions, to optimize deployment of resources in drug interdiction. It should also explore more extensive use of drug intelligence and the opportunity to participate in government-

wide or multi-force intelligence centres with other law enforcement agencies to achieve its goals.

Department's response*: The Department recognizes the need for a more comprehensive approach to drug enforcement. A recent reorganization of the Enforcement Directorate emphasized the requirement for broader risk assessment and more co-ordinated and responsive drug operations. A study has been commissioned on performance measurement criteria. In support of drug operations three Customs 2000 projects have been undertaken to: support the capability of developing regional and national threat assessments; define and introduce the functions to support a more flexible and responsive departmental operations plan; and to deliver an integrated national informatics system.*

The Department concurs fully with the recommendation concerning sharing of intelligence and is actively pursuing this concept with other law enforcement agencies.

Hazardous Materials

The legislative framework for regulating hazardous materials is complex and involves various federal departments

15.83 The term hazardous materials refers to substances which pose a significant risk to life, health, property or the environment. It also includes toxic substances and hazardous wastes which have little or no commercial value and are to be discarded. The audit did not cover atomic substances or household garbage. Atomic substances are generally regulated under other legislation; and there is no specific federal legislation dealing with the movement of household garbage.

15.84 The legislative framework for regulatory control of hazardous materials is made up primarily of three Acts and their regulations: the Transportation of Dangerous Goods Act, the Canadian Environmental Protection Act and the Hazardous Products Act. In its Part III of the Estimates, the Department includes these Acts as among those that it administers in whole or in part. The framework is complex and involves other departments, primarily the departments of Transport, Environment and Consumer and Corporate Affairs.

15.85 The Transportation of Dangerous Goods Act regulates the movement of hazardous materials while in Canada by setting safety standards in transportation. It is administered by the Department of Transport. The sections relating to hazardous wastes are jointly enforced with the Department of the Environment.

15.86 The Canadian Environmental Protection Act, administered primarily by the Department of the Environment, provides a framework for the management of toxic substances and control over importation and exportation of certain substances, including hazardous wastes. At the time of our audit, about six classes of substances were prohibited from importation under this Act. Over 40 other substances have been identified as priority items for analysis to determine if they need to be regulated. The goal in the Green Plan is to have 100 priority substances assessed for toxicity by the year 2000, and where appropriate, to have corresponding regulations enacted. These regulations may include import and export controls.

15.87 Consumer and Corporate Affairs administers the Hazardous Products Act, which prohibits or controls the importation of certain industrial and consumer products. In some cases, regulatory control is exercised through a requirement to display warning labels.

15.88 We looked for Customs' compliance with legislative requirements, co-ordination with other concerned departments, risk analysis and training, and management control and monitoring.

The Department has a role to play in controlling the importation of hazardous materials

15.89 Although these Acts contain no explicit reference to Customs' role in controlling the importation of hazardous materials, the Customs Act empowers the Department to search, examine and detain when dealing with infractions of any federal statute.

15.90 In Part III of the Department's Estimates, it states that its mission is:

> to protect the Canadian public by ensuring compliance with all legislation for which it has administrative responsibility in an efficient and responsive manner.

It also states that the Department plays an important role in implementing socio-economic policies, an aspect of which is to provide an initial screening process at points of entry on behalf of other departments. In its elaboration of operating principles, the Department indicates that it will respond effectively to the increasingly important role of protecting society by ensuring prompt detection of prohibited goods such as those harmful to the environment. Further, environmental protection is one of two specific program areas identified by the Department as warranting emphasis in its enforcement strategy.

15.91 Because of its strategic location and placement of officers, it is logical for the Department to play a role in controlling the movement of hazardous materials. An example is detaining and interdicting banned substances at the time of importation rather than having other agencies seek out prohibited shipments and contain their movement after entering Canada. The initial screening at points of entry also serves as a first control point for substances that require monitoring.

There is no defined program to deal with hazardous materials

15.92 We found that there is no defined program within the Department dealing with the movement of hazardous materials. Although management's intention and commitment to address this area are evident in strategic documents, there has been little visible action and the Department's role has not been clearly established.

15.93 The Department provides instructions on enforcement activities to its staff in its enforcement manual, through a series of departmental memoranda, and through training.

15.94 The enforcement manual does not deal with hazardous materials. There is no departmental memorandum on hazardous wastes or toxic substances regulated under the Transportation of Dangerous Goods Act or Canadian Environmental Protection Act; the only memorandum on hazardous products regulated under the Hazardous Products Act was issued in 1984. During our examination, a departmental directive was issued to staff on dealing with hazardous materials abandoned to the Crown. This was the first guidance to staff on handling such materials.

15.95 The Department's 16-week comprehensive training program for new Customs inspectors does not include the subject of hazardous materials. There was no training to accompany the 1984 memorandum on hazardous products or the new directive dealing with abandoned materials.

The implementation of the agreement with the Department of the Environment has just started. The Department's co-ordination with other departments regarding importation of hazardous materials has been ad hoc and issues have been addressed on a case-by-case basis.

15.96 We noted that, in recent years, the Interdiction and Intelligence functions have focussed enforcement activities primarily on illegal drugs. Limited initiatives were undertaken by the Department in relation to hazardous materials. Little was done to gather information, analyze and assess the risk of illicit importation or non-compliance with relevant legislation or to target cargo entries for examination of hazardous materials. The Department has appointed environmental liaison officers in each of its Customs regions; however, they were not advised of their roles and responsibilities in this capacity and did not receive any training.

15.97 With the complex legislative framework in this area and the involvement of various departments, we would expect Customs to co-ordinate its efforts with the other departments concerned. However, Customs' only agreement is with the Department of the Environment. The two departments signed a memorandum of understanding in November 1989, agreeing to work together so that Customs inspectors could be adequately trained and support the Department of the Environment in enforcing the Canadian Environmental Protection Act and its prescribed regulations at points of entry. The implementation of the agreement has just started. The Department's co-ordination with other departments has been ad hoc and issues have been addressed on a case-by-case basis.

Customs' participation in inspecting hazardous materials at ports of entry is infrequent

15.98 At the ports we visited during the audit there was no practice of ascertaining compliance with regulations on hazardous materials or detaining certain imported goods which could contain banned hazardous materials for testing and examination by other departments. There was also no arrangement in operation with concerned departments to detain these materials at a contained site.

15.99 The Customs Commercial System, the automated system supporting commercial operations, selects entries for examination at random. However, we were advised that if the selected entry were to contain hazardous materials, the inspector would override and release the shipment. This practice arose from concern for inspectors' safety. The Customs Commercial System also provides information on regulatory requirements for, and import prohibitions on, products. We carried out a test check of the six classes of substances that are banned from importation under the Canadian Environmental Protection Act and two substances banned under the Hazardous Products Act. The System only identified the two latter substances as prohibited; the other six drew no response.

15.100 In the area of enforcement of the Canadian Environmental Protection Act, the Department of the Environment carries out inspection programs for prohibited substances and occasionally requests Customs' support, such as allowing access to and use of its physical facilities, directing identified shipments to Environment officials, or providing data on commercial shipments. The Department primarily responds to requests for assistance from other departments on a case-by-case basis.

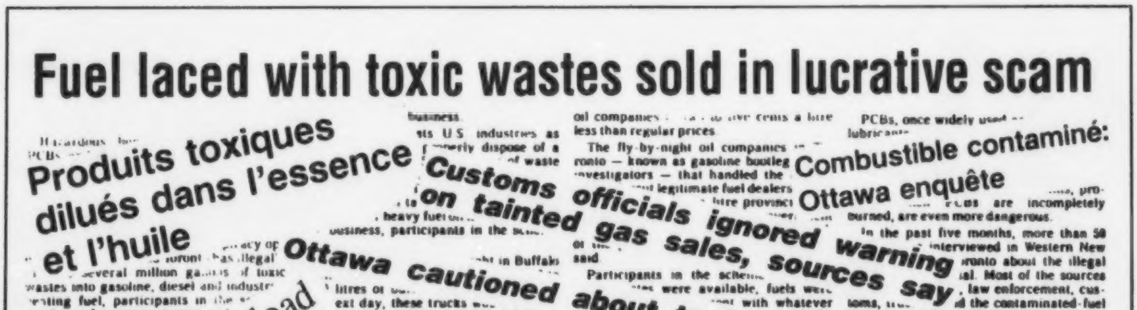
15.101 From our discussions with Customs officials and our review of files, we concluded that Customs' participation in inspection programs aiming at ensuring compliance with hazardous materials regulations at points of entry is infrequent. Major multi-departmental inspection efforts were only made in response to media allegations and publicity and were not part of an ongoing enforcement program.

15.102 A well-known example is the case in May 1989, where it was alleged in the media that fuel laced with polychlorinated biphenyl (PCB) was coming into Canada from the United States. Newspaper articles also described a fuel tax evasion scheme for defrauding the federal and provincial governments. Polychlorinated biphenyl is regulated under the Canadian Environmental Protection Act and is one of the substances banned from importation. A combined forces petroleum task force was commissioned to investigate the allegations, and the Minister of National Revenue announced an enhanced inspection program for importation of bulk liquid fuels at 31 ports effective 15 May 1989. The program called for the referral of all bulk liquid fuel shipments to Department of the Environment officials for inspection and testing. No contaminated shipments were found in the enhanced inspection program but the task force did conclude that there had been shipments of PCB-tainted fuels into Canada and that the practice had ceased by spring 1988.

15.103 With respect to enforcement of the Transportation of Dangerous Goods Act, we found no evidence of Customs' involvement, except where certain ports in one region received and accepted requests from the Department of Transport to co-operate. Customs officers in these ports referred carriers to on-site Transport officials for inspection and verification of compliance with the requirements under the Act.

15.104 In addition to setting requirements for training and emergency response measures, the legislation calls for placement of placards on conveyances and containers, and specific documents to warn of the hazardous nature of the cargo. Furthermore, legislation requires importers of hazardous wastes to give notice, at least 60 days in advance of shipment into Canada. The Department does not attempt to identify shipments and verify compliance with placarding or other documentation requirements.

15.105 There is no evidence of Customs' actions in enforcing the Hazardous Products Act. The 1984 memorandum on hazardous products was never updated, despite changes to the Act and regulations over the years. For example, there is no reflection of the fact that the regulations have been updated over time to change the list of products prohibited for importation. Also, the memorandum instructs Customs inspectors to release shipments found to contain prohibited or restricted commodities, subject to advising Consumer and Corporate



Fuel laced with toxic wastes sold in lucrative scam

Produits toxiques dilués dans l'essence et l'huile

Customs officials ignored warning on tainted gas sales, sources say

Combustible contaminé: Ottawa enquête

Ottawa cautioned about toxic shipments in '86

Toxins by truckload

Illicit waste-laden fuels enter Canada

Ottawa, Ontario investigate sale of tainted fuels

Mob figures are linked to waste 'laundering'

Ottawa ends 24-hour tanker screening

Déjà 18 plaintes en Ontario

Trafic d'essence et d'huile contaminées

Ministers under fire over tainted fuel

Department knew of fuel scam

Fuel imports restricted at U.S. border

Ottawa ferme 125 postes frontière

Le gouvernment compte ainsi exercer un «contrôle total et étanche» sur le pétrole importé

Source: Various newspaper articles during 1989

Media allegations and publicity led to an enhanced inspection program.

Affairs, even though the importation of these products is clearly prohibited under the Act.

15.106 There is a significant volume of legitimate movement of hazardous materials internationally. Many of these substances are used in manufacturing processes; there are also waste shipments entering Canada for recycling or disposal. It is estimated that over 70 percent of the chemicals used by Canadian industries are imported; and Quebec and Ontario have each reported annual importation of about 70,000 tons of hazardous wastes. There is a need for a more concerted effort to control importation of legitimate shipments of hazardous materials and prohibit banned substances to protect the environment and the public interest. In addition, enforcement efforts to control hazardous products help to maintain the competitiveness of Canadian industries by ensuring that imported commodities meet the same safety standards. The lack of an enforcement program by the Department also increases the risk of not detecting the smuggling of other commodities or contraband in shipments of hazardous materials.

There is a significant volume of legitimate movement of hazardous materials internationally.

15.107 The memorandum of understanding with the Department of the Environment, which calls for a pro-active approach, is a step in the direction of better co-operation and control. It provides for the Department of the Environment to train Customs inspectors so that the two departments could work together in identifying, handling and controlling waste shipments to enforce the Canadian Environmental Protection Act. Its implementation would also foster ongoing intelligence exchange to support targeting of shipments for examination. The Department could also contribute to the legislative controls provided by the Transportation of Dangerous Goods Act by checking for placard requirements and verifying legislated shipping documents at the time of importation.

15.108 The Department should review and define its role with respect to enforcement of controls over the movement of hazardous materials. This could include consulting, co-ordinating and seeking agreement with other concerned departments to put in place a program that would:

- **provide direction and training to Customs inspectors;**
- **support the handling and inspection of hazardous materials with appropriate equipment and facilities or through arrangements with other departments;**
- **support operations by conducting risk analysis and by gathering and sharing intelligence; and**
- **provide ongoing monitoring and periodic evaluation of operations.**

Department's response: *The Department agrees. The memorandum of understanding between the Department of the Environment and Customs defines the roles and responsibilities of both departments regarding the inspection of shipments of hazardous waste. Customs will consult with other departments, for example, Department of Transport and Consumer and Corporate Affairs to co-ordinate and seek agreement on Customs' role in the administration of their respective legislation. These agreements would facilitate the implementation of a program which would address the points raised in this recommendation.*

Chapter 16

Department of National Revenue - Taxation
Taxpayer Services

Department of National Revenue - Taxation

Taxpayer Services

Main Points

16.1 The Department of National Revenue-Taxation has stated its commitment to improving taxpayer services. In recent years it has extensively studied its operations, changed some practices, extended the use of automation, and expanded the range of its services. Still, the quality of some services provided is below the levels desired by the Department.

16.2 Information on client expectations is vital to the establishment of service standards. The Department uses consultative committees and focus groups to learn how it can be more responsive to taxpayers' needs. Questionnaires used to obtain taxpayers' views should be supplemented with other information sources. The Department does not make the most effective use of complaints as a source of information (paragraphs 16.20 to 16.33).

16.3 During the 1990 and 1991 filing seasons for personal income tax returns, the Department conducted surveys of telephone enquiries agents in order to monitor various aspects of their performance. One output of the surveys was information indicating that it took an average of 3.8 call attempts to get an agent on the line in 1990 and 3.2 attempts in 1991. This performance does not meet the Department's standard of approximately 1.4 attempts (16.36 to 16.55).

16.4 A large percentage of adults in Canada find the Department's publications difficult to understand. The Department is beginning to address the problem. A "readability team" is helping revise key publications to make them more understandable. In addition, certain members of the Department have received training on how to use plain language when they write. As a result, several of the Department's publications are now easier to read (16.78 to 16.89).

16.5 The Department has not conducted evaluations of its services to determine whether they are contributing to its objectives in a cost-effective manner or whether its resources are optimally employed (16.98 to 16.100).

16.6 Part III of the Estimates reports certain volume data on taxpayer services. It does not contain any information on service standards or quality (16.101 to 16.106).

Table of Contents

Paragraph

Introduction 16.7

Audit Objectives and Scope 16.14

Understanding and Responding to Expectations 16.20
- Consultative committees provide user input (16.21)
- The Department needs more feedback on services (16.23)
- The Department does not make the most effective use of complaints as a source of information (16.28)
- Performance standards may not adequately reflect client expectations (16.34)

Telephone Enquiries 16.36
- The Department provides automated enquiries services to reduce demand on agents (16.39)
- The target level of service for general enquiries is lower than the Government Telecommunication Agency's guideline (16.41)
- The level of service standard is not met for much of the filing season (16.44)
- The Department focusses on its standard for waiting time (16.47)
- The Department's surveys do not provide an estimate of accuracy of replies to the public (16.51)
- Enquiries agents are courteous (16.56)
- Temporary enquiries agents have little training or experience (16.57)

Counter Enquiries 16.67
- A departmental task force recommends a review of the structure and location of NRT offices (16.70)
- The Department recognizes that some service counters are not well designed for confidentiality (16.71)
- Waiting time at service counters is not adequately measured (16.73)

Correspondence 16.76
- Systems are in place to ensure correspondence is complete, accurate and timely (16.77)

Forms and Publications 16.78
- The Department is taking steps to improve its publications (16.79)
- Publications are becoming easier to read but are still not understandable to a large percentage of the adult population (16.83)
- Some forms and publications are not available on time (16.90)

Table of Contents (cont'd)

	Paragraph
Education and Special Services Programs	16.93
Determining the Benefits and Costs of Service Activities	16.98
Accountability	16.101
Performance reporting concentrates on volume data, not on quality (16.101)	
Conclusion	16.107

Exhibits

16.1 Program Structure of National Revenue - Taxation
16.2 Public Enquiries (Non-automated)
16.3 General Telephone Enquiries
16.4 Using Plain Language in Tax Guides

Department of National Revenue - Taxation

Taxpayer Services

Introduction

16.7 The Canadian income tax system is based on the principle of self-assessment. Taxpayers are responsible for calculating their obligations or entitlements. Yet, the Income Tax Act is not readily understood by the vast majority of people. To meet their obligations or determine their entitlements, therefore, taxpayers need other sources of information about the tax.

16.8 National Revenue - Taxation (NRT) must prepare forms and publications that accurately reflect the law and at the same time are easy for people to use. NRT must provide ways for people to ask for and get answers to their questions. In fact, providing information services can form a part of all NRT's activities.

National Revenue - Taxation must prepare forms and publications that accurately reflect the law and at the same time are easy for people to use.

16.9 A recently completed report by the Service to the Public Task Force (part of the government's PS 2000 initiative) recognizes the importance of employees in providing government services and calls for three major changes:

- The public service must become more client-centred and effective in meeting citizens' needs and expectations;
- Public servants must consult much more actively with clients and other stakeholders in developing and administering programs; and,
- Managers must improve their performance so that public servants feel valued, motivated, informed and challenged to put forth their best efforts.

16.10 NRT has reacted to this demanding environment. In January 1989, it launched Phase I of its Corporate Development Initiative to look at a number of issues, including the Department's mission, style of management, and communications with outside parties. In Phase II, which began in mid-1990, three task forces were set up to examine organizational effectiveness, internal communications, and ways of streamlining program delivery. The task force reports were completed in early 1991.

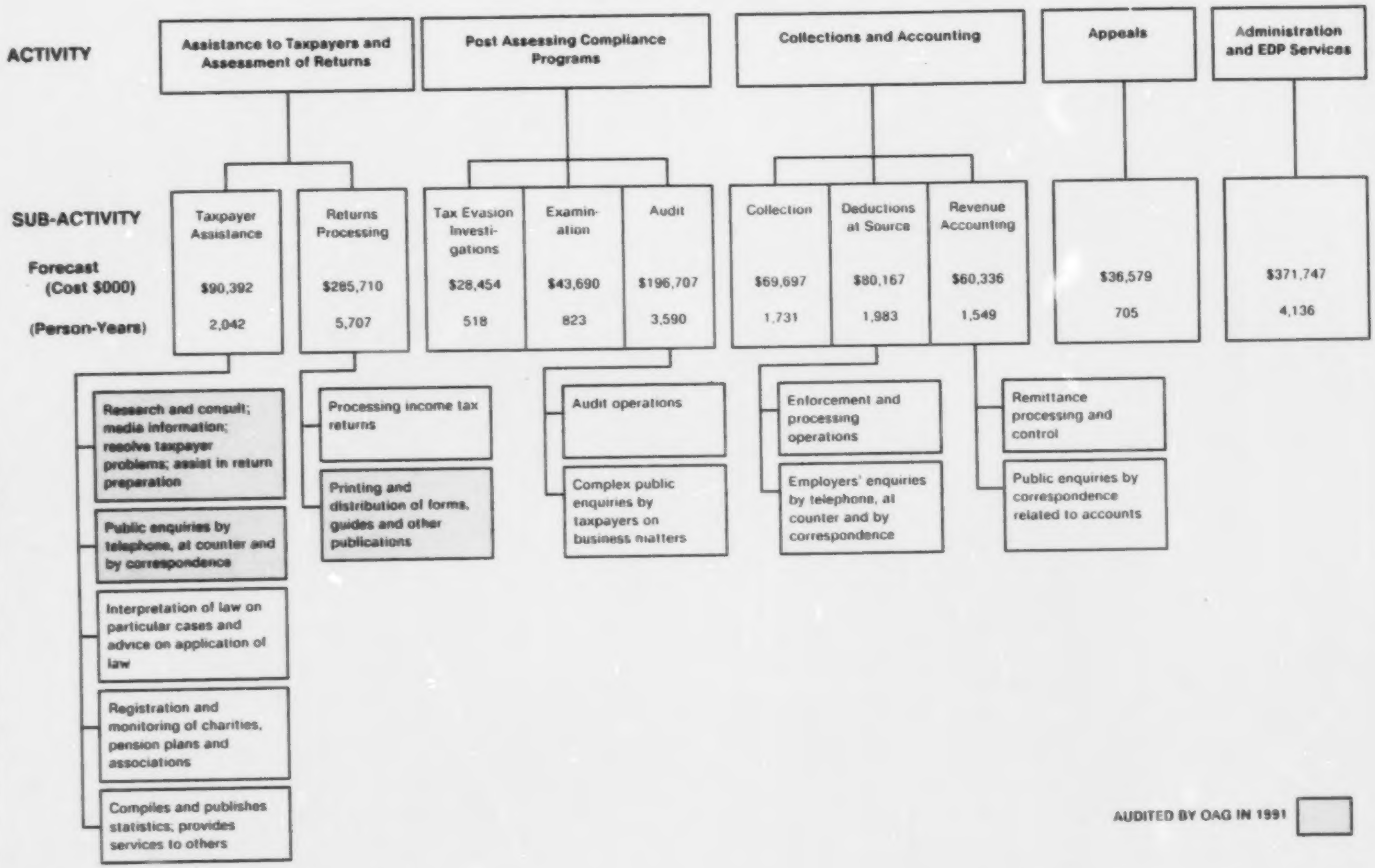
16.11 One output of the Initiative was a draft mission statement. The following is an excerpt from the draft statement:

> *We at Revenue Canada - Taxation are responsible to Canadians and their governments for excellence in the operation of the income tax system.*
>
> *By excellence, we mean that all obligations are understood and honoured, all entitlements are received and all our clients have confidence in our capability and integrity.*
>
> *To realize this mission, Revenue Canada - Taxation is committed to quality service that is:*
>
> - *responsive to our clients' needs and built on consultation;*
> - *impartial, fair and respectful of individual rights and the Declaration of Taxpayer Rights;*

Exhibit 16.1

PROGRAM STRUCTURE OF NATIONAL REVENUE - TAXATION

(Showing 1990-91 Forecast Expenditures)


ACTIVITY
SUB-ACTIVITY
Forecast (Cost $000)
(Person-Years)
Assistance to Taxpayers and Assessment of Returns
Post Assessing Compliance Programs
Collections and Accounting
Appeals
Administration and EDP Services
Taxpayer Assistance
$90,392
2,042
Returns Processing
$285,710
5,707
Tax Evasion Investigations
$28,454
518
Examination
$43,690
823
Audit
$196,707
3,590
Collection
$69,697
1,731
Deductions at Source
$80,167
1,983
Revenue Accounting
$60,336
1,549
$36,579
705
$371,747
4,136
Research and consult; media information; resolve taxpayer problems; assist in return preparation
Public enquiries by telephone, at counter and by correspondence
Interpretation of law on particular cases and advice on application of law
Registration and monitoring of charities, pension plans and associations
Compiles and publishes statistics; provides services to others
Processing income tax returns
Printing and distribution of forms, guides and other publications
Audit operations
Complex public enquiries by taxpayers on business matters
Enforcement and processing operations
Employers' enquiries by telephone, at counter and by correspondence
Remittance processing and control
Public enquiries by correspondence related to accounts
AUDITED BY OAG IN 1991

Source: 1991-92 Estimates. Part III. Revenue Canada Taxation

> - *open, accessible and understandable;*
> - *efficient and courteous; and*
> - *professional, prompt and willing.*
>
> *We will achieve our mission through a highly capable work force which is equipped with state-of-the-art technology and dedicated to service.*

16.12 Service is singled out as a strategy to achieve the mission. This reflects a movement, evident in the Department for some time, towards a "service culture". Another major part of NRT's strategy, the use of enforcement, is implicit in the mission statement.

"You are entitled to expect that the Government will make every reasonable effort to provide you with access to full, accurate and timely information about the Income Tax Act, and your rights under it."

16.13 While the draft mission statement itself is new, some of its key ideas are not. NRT's Declaration of Taxpayer Rights, published a few years ago, reminds taxpayers that they are entitled to know and insist on certain rights. Particularly relevant to the subject of this chapter are the following concepts:

> *You are entitled to expect that the Government will make every reasonable effort to provide you with access to full, accurate and timely information about the Income Tax Act, and your rights under it.*
>
> *You are entitled to courtesy and considerate treatment from National Revenue - Taxation at all times....*

Audit Objectives and Scope

16.14 Because of the current interest within government in services to the public, and because NRT is taking steps that reflect its own concern in this area, we felt it would be timely to audit some of the Department's major service activities.

16.15 The objectives of the audit were to determine whether NRT's programs for providing general services to the public are managed with due regard for economy and efficiency and whether satisfactory procedures have been established to measure and report on effectiveness. We also wished to determine whether Parliament is kept adequately informed of results.

16.16 We focussed on the most widely used of NRT's services and related products: general enquiries (by telephone, by correspondence, or in person); forms and publications; and taxpayer education and assistance programs. For the most part, these services are aimed at individual, rather than corporate, taxpayers. We also examined hiring, training and supervision of staff, because they have an impact on the quality of services offered. Finally, we looked at how Part III of the Estimates reports on services.

16.17 We excluded services that are ancillary to enforcement, collection or other activities that we audited and reported on in the last three years.

16.18 Exhibit 16.1 shows the program structure in NRT. The service activities examined during this audit were expected to consume 2,270 person-years, or 10 percent of total authorized person-years, and $162 million, or 13 percent of estimated departmental gross expenditures for 1990-91.

16.19 The audit involved work in 10 of 37 district offices, 3 of 7 taxation centres and 2 of 5 regional offices. Our audit also included work in the head office, which provides administrative support and functional guidance in respect to service activities.

Understanding and Responding to Expectations

16.20 An organization that is oriented toward service to the public should conduct research to identify clients and articulate client behaviour and expectations. A service organization needs standards defined in quantifiable terms and measurement of performance against them. Service standards should be set giving due regard to client expectations, program objectives and the feasibility and cost of providing service.

Consultative committees provide user input

16.21 NRT currently meets with numerous interest groups and advisory committees and has plans to extend its contacts. The scope of this communication goes beyond provision of services and includes matters of tax administration and enforcement. The Department has demonstrated that it does act upon the information and advice obtained.

16.22 At the district office level, the extent of consultations with outside groups varies. For the most part, meetings take place with local accounting and law associations and deal with technical matters of tax law and administration.

The Department needs more feedback on services

16.23 In early 1991, NRT started a national program to monitor client satisfaction with its services. Questionnaire cards are available to taxpayers at all points of face-to-face contact with NRT employees. Taxpayers are asked the purpose of their contact with NRT, their overall rating of the service (excellent, good, fair or poor), whether service was courteous and explanations were clear, and whether they were served in their official language. Space is provided for additional comments. An appointment with a departmental representative can also be requested on the card.

16.24 Also beginning in 1991, clients who call InfoTax (see paragraph 16.39) hear a recorded voice asking three questions: whether they found the information helpful; whether they will contact the Department for more information; and whether they would recommend the service to friends.

16.25 A limitation of the questionnaires is that replies are not obtained in a manner that will allow objective measurement of trends. Because of this, results cannot be correlated with internal performance measures to reveal how changes in these measures affect overall satisfaction ratings.

16.26 Other sources are needed to provide the following data that the questionnaires were not intended to capture:

- information on non-automated general telephone enquiries, which are one of NRT's major services;
- information about aspects of service that create value in the client's eyes and aspects that detract from the value; and
- information from people who might benefit from the services but who do not presently use them.

In the past, NRT has used periodic general surveys to obtain such information. The last general survey was conducted in 1989. NRT has also used market surveys that focus on specific topics of interest.

16.27 The Department should devise ways to obtain ongoing feedback on services not covered by its questionnaires.

Department's response: *We have many mechanisms in place to obtain feedback from our clients, questionnaires being but one important vehicle. Other means include, at the national, provincial and local levels, face-to-face meetings, focus groups, advisory committees, and extensive consultations with tax practitioners and representative groups of taxpayers. We use exit survey cards at our district offices to solicit client feedback and we employ problem resolution officers at our offices* *who both obtain feedback from taxfilers and take action to deal with it.*

A major objective of Revenue Canada - Taxation is enhanced client service. Our commitment to service is exemplified by our wide ranging services. Examples include a computerized telephone enquiry service called TIPS, Seasonal Tax Assistance Centres or STACs and FAX machines at our district offices for greater accessibility. In an effort to continue to be responsive to clients' needs, we will use appropriate mechanisms and strategies to obtain feedback on our services.

The Department does not make the most effective use of complaints as a source of information

16.28 An important aspect of ensuring client satisfaction and detecting opportunities for service improvements is proper complaint handling. There should be a comprehensive complaint handling policy that:

- assigns specific responsibility for registration and routing of complaints from all sources;
- specifies the manner of acknowledgment and response; and,
- prescribes a process for selecting complaints for detailed analysis to determine causes and actions needed to prevent recurrence.

16.29 NRT lacks a comprehensive policy on dealing with complaints. NRT does not say where and how to lodge complaints in its forms and publications or in public telephone books. Nevertheless, the Department does receive complaints.

16.30 A complaint is usually handled in the area about which it was made. No procedure is in place to log all complaints. Urgent or sensitive complaints, such as those from Members of Parliament, or complaints needing special attention and co-ordination of activities are referred to the Problem Resolution Program, which operates in each district office and taxation centre. Replies to complaints to the Minister or Deputy Minister are co-ordinated by the Taxpayer Correspondence Section in head office.

16.31 One of the Problem Resolution Program's objectives is to analyze trends in taxpayer complaints referred to it and identify causes so the Department can prevent the recurrence of particular problems. We found that trend analysis is not done.

16.32 The Department's Task Force on Organizational Effectiveness suggested that NRT consider enhancing the existing Problem Resolution Program and setting it up as a new division in district offices with authority and capacity to serve as an ombudsman for clients, politicians and tax preparers. This program would be advertised with a view to improving service, responsiveness and public education.

16.33 The Department should ensure that taxpayers are informed of where and how complaints may be lodged. Complaints should be analyzed, and results reported to senior management, with an explanation of actions taken in response to significant trends.

Department's response: *Complaints may be lodged through contact with any departmental representative at any time and at any of our various locations. In addition, exit survey cards at district offices are widely used to solicit both positive and negative feedback on the level of service received. These cards also contain an item offering an opportunity for a face-to-face meeting if the taxfiler so requests. Statistics on 10,000 exit survey cards completed last spring reveal that 74 percent of clients rated our service as excellent and 22 percent said it was good.*

To strengthen further our ability to respond to client concerns, two initiatives have been implemented. First, for 1991, both the General and Special Tax Guides contain a description of our Problem Resolution Program and the telephone number of a co-ordinator at each district office and taxation centre. Secondly, we are enhancing our Problem Resolution Program control system to reveal trends more accurately and to ensure more timely reporting *of corrective actions initiated. A similar trend analysis is also being introduced in respect of general and ministerial correspondence.*

The Department has not ensured that its standards can satisfy client expectations to a reasonable extent.

Performance standards may not adequately reflect client expectations

16.34 Following sections of the chapter refer to a variety of service quality indicators and standards that NRT uses. Information and feedback obtained through consultation, questionnaires, surveys, and analysis of complaints could be used to ensure that the Department considers indicators and establishes standards that reflect an understanding of the performance desired by clients as well as program objectives and the feasibility and cost of providing service. At present, the Department has not ensured that its standards can satisfy client expectations to a reasonable extent.

16.35 The Department should review its performance standards to determine whether they adequately reflect client expectations of service quality as well as program objectives and the feasibility and cost of providing service.

Department's response: *We periodically review our standards and revise them towards improving the quality of service to our clients. We will continue to review our performance standards on an ongoing basis and we will consult extensively to determine and reflect client expectations in any revision to these standards.*

Telephone Enquiries

16.36 NRT provides a general enquiries service through 37 district offices across the country. In 1990-91, agents were expected to handle about 7.7 million calls, including general enquiries, questions on the Goods and Services Tax Credit, and pension reform queries. They were also expected to deal with 1.5 million refund and Advance Child Tax Credit enquiries. The Department's automated enquiries services handled a further 835,000 general and tax credit enquiries and 634,000 refund enquiries.

16.37 Each year the Department hires and trains hundreds of temporary employees to handle telephone calls during the busy season when people prepare and file their individual income tax returns. These temporary agents

Exhibit 16.2

PUBLIC ENQUIRIES (NON-AUTOMATED)
(in thousands)

	Telephone Enquiries General	Telephone Enquiries Refund	Regular Counter Enquiries	Correspondence Enquiries
1987-88 Actual	7,130	1,026	1,525	113
1988-89 Actual	6,941	1,208	1,576	117
1989-90 Actual	7,068	1,048	1,594	111
1990-91 Forecast	7,712	1,572	1,549	111

Source: 1991-92 Estimates, Part III, Revenue Canada Taxation

NRT provides a general telephone enquiries service through 37 district offices across the country (see paragraph 16.36).

are expected to respond to all questions about material in the General Tax Guide. This amounts to about 75 percent of questions. For this work they are given three weeks of full-time training. However, students hired to respond to telephone enquiries in the evening are expected to answer a more limited range of questions and receive a lesser amount of training.

16.38 When the agent who first gets a call cannot answer the question, the call is passed on to a more experienced, permanent employee. If the question requires research before an answer can be given, the caller is to be notified within 24 hours.

The Department provides automated enquiries services to reduce demand on agents

16.39 In 1987-88, NRT initiated an automated telephone enquiry service called Telerefund that provides callers with the status of their income tax refunds. Automated service, which is available across Canada, has now been expanded to provide general information (InfoTax) and information on certain tax credits.

16.40 NRT feels there are significant advantages to the automated system. The service extends beyond normal office hours. An evaluation of Telerefund showed that calls made to this automated system reduced the calls to the regular refund enquiries agents. Also, a departmental analysis estimated that calls through the automated Goods and Services Tax Credit enquiry system cost, on average, less than calls to agents.

The target level of service for general enquiries is lower than the Government Telecommunication Agency's guideline

16.41 The Department needs to provide readily accessible service delivery systems. Accordingly, it has set the following service standards for access to general enquiries agents:

- Not more than 30 percent of calls will get a busy signal. This level of service is referred to as "P30." Another way to express this standard is to say that, on average, it should take a caller no more than approximately 1.4 attempts to get an agent on the line.

- On average, a caller will not be put on hold in the call queue for more than 180 seconds before an agent comes on the line.

- Not more than 10 percent of calls in the call queue will be abandoned by the caller.

For automated telephone enquiries services, which, unlike general enquiries, do not use scarce staff resources, NRT aims for a busy signal on only 10 percent of calls ("P10"). These standards are reflected in the Department's annual plans.

16.42 A Government Telecommunications Agency guideline recommends that toll-free (1-800) telephone numbers provided through the Government Shared Network deliver a level of service such that only 10 percent of calls will receive a busy signal. The guideline does not apply to service provided through regular local telephone numbers.

16.43 An opinion survey of NRT district office managers conducted by head office showed that complaints about accessibility rise sharply when upwards of 20 percent of callers get a busy signal.

The level of service standard is not met for much of the filing season

16.44 As noted above, the current objective of the Department is to provide a P30 level of service. National surveys of accuracy of responses to telephone enquiries performed during the 1990 and 1991 filing seasons indicate that the Department did not meet its standard for level of service in the 12-week period of each survey. The consultants who performed the surveys reported that, on average, it took 3.8 call attempts to get an agent on the line in 1990 and 3.2 attempts in 1991. This means that, on average, in 1990, over 73 percent of calls attempted by the consultants resulted in a busy signal. In 1991, the figure was over 68 percent.

16.45 The Department does not have a reliable measure of levels of service for the part of the year not covered by the survey. The statistical method used by NRT to estimate levels of service is unreliable at levels poorer than P10. Telephone companies that use similar statistical estimates verify them by actual measurement of all calls attempted and calls connected. NRT does not verify its estimates by this or any other means.

16.46 The Department should develop reliable measures of levels of service that can be used throughout the year.

***Department's response**: The Department is committed to the pursuit of the most reliable measures available. We do this to the extent possible using statistical estimation techniques. Such measures tell us that we generally do meet our level of service standard except for the busiest hours of the filing season.*

We will continue to use all methods available to us and to explore new measurement techniques as they become available.

The Department focusses on its standard for waiting time

16.47 NRT's use of several performance standards that support each other is consistent with the practice of other organizations that provide telephone enquiry services.

16.48 An improvement of one measure used by NRT may be accompanied by a deterioration in another. In view of this, the Department focusses its attention on the standard for waiting time and manages its telephone systems accordingly.

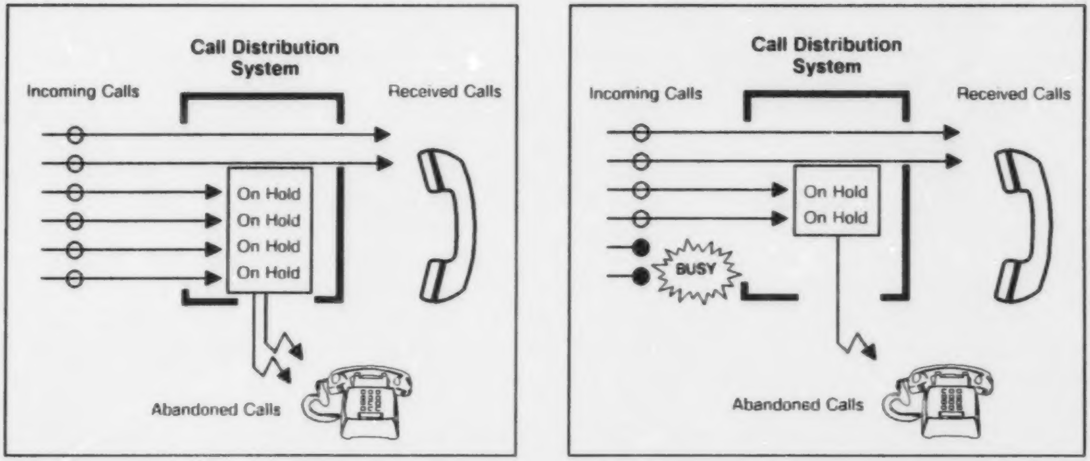
16.49 To illustrate, when the number of calls to a district office increases to the point where the waiting time is excessive, NRT practice is to reduce the number of incoming telephone lines. Accordingly, callers will get a busy signal rather than being put on hold and having to wait for an extended period of time. (See Exhibit 16.3.) For toll-free lines, this practice reduces the long-distance charges incurred by the Department.

16.50 Departmental statistics for the 1990 filing season show that the standard for abandonments was not met during busy hours

Exhibit 16.3

GENERAL TELEPHONE ENQUIRIES

How NRT manages the waiting time in the call queue during busy periods



With all incoming lines available, the call queue lengthens and waiting times increase.

With some incoming lines made unavailable, the call queue and waiting times are shorter.

○ Incoming lines available ● Incoming lines unavailable

in about 45 percent of the district offices. The 180-second standard for waiting time was generally met.

The Department's surveys do not provide an estimate of accuracy of replies to the public

16.51 According to the Declaration of Taxpayer Rights, the Department should provide full and accurate information. NRT takes this to imply a standard of 100 percent accuracy all the time.

16.52 For the 1990 and 1991 tax return filing seasons, NRT hired a consulting firm to pose a series of test questions to telephone enquiries agents. The purpose of these surveys was to identify questions that were answered incorrectly and feed back the results to district offices so that managers and supervisors could take remedial action to improve accuracy. This supplements other means used by supervisors to improve agents' job performance.

16.53 The surveys of general enquiries were carried out over periods of 12 weeks and consisted of about 2,000 calls in 1990 and about 3,800 calls in 1991. Callers asked questions from a series of test questions covering a range of subjects. The responses were recorded, compared to the recommended answers, and analyzed by the consultants.

16.54 The survey for the 1990 filing season showed that 68 percent of answers to test questions were correct. For the 1991 survey, 80 percent were correct. During the surveys, whenever a question was answered incorrectly, the district office was promptly informed of the question and the correct response. The consultants cautioned that, because this feedback was given while the survey was in progress, the overall survey results may not be representative of the accuracy rate achieved in replies given to the general public. We noted that there are no other indicators to measure the accuracy of responses to public queries.

NRT hired a consulting firm to pose a series of test questions to telephone enquiries agents.

16.55 The Department should develop measures of performance for telephone enquiries that are representative of the accuracy rate of replies given to the general public.

Department's response: *Our approach to improving accuracy includes after-the-fact measurement as well as building self-corrective measures directly into our programs. With regard to the latter, we continue to incorporate quality assurance, training and monitoring activities to obtain immediate feedback for corrective action. We are experimenting with expert systems technology towards improving accuracy.*

Respecting measurement, we annually carry out a survey of telephone enquiries for the purpose of providing immediate feedback to our enquiries staff so improvements can be made. This was supplemented in 1989 with an independent survey conducted by a firm of chartered accountants, selected through a competitive process, to produce statistically valid results. We will repeat the independent survey from time to time to monitor our progress.

Enquiries agents are courteous

16.56 The Declaration of Taxpayer Rights indicates that NRT is to provide courteous and considerate treatment. NRT takes this to mean that staff are to be courteous all the time. The consultants who carried out the above-mentioned surveys also rated NRT agents on their courtesy. In 1990, the consultants found that agents were courteous in handling enquiries 97 percent of the time. In 1991, the consultants found that agents were courteous 95 percent of the time.

Temporary enquiries agents have little training or experience

16.57 In a service organization, the need for resources and skills should be based on the organization's service standards.

16.58 The departmental Task Force on Organizational Effectiveness expressed concern that during the busiest time of the year, from February to April, the Department uses temporary employees having little experience or training as enquiries agents. Yet, NRT expects these employees to meet its high standard for accuracy as implied in the Declaration of Taxpayer Rights. The Task Force cites expert opinion that in such situations there is a high risk that service standards will not be met.

16.59 Each year NRT invites applications for jobs as enquiries agents. The qualifications demanded of applicants vary among district offices. Some applicants will have served as enquiries agents in prior years.

Temporary employees hired to answer general telephone enquiries take three weeks of training.

16.60 Applicants are given tests to evaluate technical ability, personal suitability, oral communication skills, tact and courtesy, and the ability to plan and organize. Each district office develops its own selection tests with little or no guidance from head office.

16.61 Temporary employees hired to answer general telephone enquiries take three weeks of training, or less in the case of students who are hired to work in the evenings and are expected to answer a more limited range of questions.

16.62 Permanent staff involved in the same work take more training. Training profiles are used to determine which courses a person has to take to be able to do the job. At the time of our audit, training profiles for enquiries agents were out of date and listed some courses that no longer existed. By May 1991, updated training profiles had been sent out to district offices.

16.63 Temporary and permanent enquiries staff complete training exercises but are usually not tested after completing courses. In some district offices that give a final test, persons who do not pass it are not retained as enquiries agents.

16.64 NRT may be able to improve its accuracy by using more permanent enquiries agents, training its temporary agents better, and/or hiring only those applicants who pass a test to demonstrate acceptable knowledge of the subject matter. However, the Department does not have the data available to determine whether these alternatives would be more cost-effective than its current way of doing business. NRT needs to conduct pilot studies to evaluate these and other possibilities.

16.65 The Department developed computerized expert systems for non-resident and source deductions enquiries activities. It plans to have an expert system available for general enquiries agents in 1993. If successful, the new system could help enquiries agents provide accurate responses.

16.66 The Department should consider performing pilot projects to test how using a higher ratio of permanent to temporary staff, modifying training programs for temporary staff, conducting qualifying technical examinations, or other alternatives would affect accuracy.

Department's response: *The Department considers employment of temporary staff during peak periods to be the most efficient utilization of available resources and their use does not, in any way, compromise our desire for accuracy. To assist these employees, we introduced an electronic information bank which enquiries officers draw on as a key source of expertise in responding to questions from the public.*

Many of our temporary enquiries people return year after year and thus require less new training. For new personnel, however, we carefully monitor their performance throughout the training period. Enquiries agents, including temporary staff, are trained to answer questions of the complexity ordinarily encountered. More complex enquiries are referred to more expert permanent staff.

In our pursuit of service excellence, we will analyze new approaches, including some of the pilot projects suggested by the Auditor General.

Counter Enquiries

16.67 District offices provide full counter services for taxpayers who wish to make enquiries in person. Taxation centres provide at least minimum counter services. The number of counter enquiries has been growing each year.

16.68 NRT also provides extended counter service for those who need help to complete their returns. In several district offices, taxpayers are given guidance to complete their own returns. The number of taxpayers using this service is increasing.

16.69 During peak periods, Seasonal Tax Assistance Centres provide counter services similar to those of district offices. These centres do not have on-line access to taxpayer information, but they do carry forms and publications that are in high demand. They are open anywhere from one day to several weeks each year, depending on the size and location of the community being served. The centres are located primarily in portable work stations in shopping malls.

A departmental task force recommends a review of the structure and location of NRT offices

16.70 An important aspect of accessibility is the location of NRT offices. The last full-scale review of office locations was carried out in 1970. Since that time, a network of regional taxation centres has been set up and the

District offices provide counter services for taxpayers who wish to make enquiries in person (see paragraph 16.67).

former Montreal and Toronto District Offices have been split into several smaller district offices. A departmental Task Force on Organizational Effectiveness recommended that a full-scale review of office structure and location be carried out.

The Department recognizes that some service counters are not well designed for confidentiality

16.71 The Declaration of Taxpayer Rights states that taxpayers are entitled to considerate treatment. One way to show consideration is to respect the taxpayers' wishes for confidentiality.

16.72 The Department has a variety of counter designs ranging from sit-down interview booths to stand-up counters. Private interview rooms are available upon request. A departmental study of counter designs concluded that side-by-side stand-up counters provide moderate confidentiality while other designs, with proper sound masking, provide higher confidentiality. The study recommended that new counter designs providing improved confidentiality be phased in over time, as district offices request renovations to their counter enquiries areas.

Waiting time at service counters is not adequately measured

16.73 The Department has a standard of 20 minutes for the average time a taxpayer should have to wait before being served at the counter. Of the 10 district offices we visited, only one gathers and reports relevant performance data.

16.74 Managers assess the accuracy of answers given to counter enquiries by listening to conversations, noting employees' questions to supervisors and reviewing written material that arises from enquiries. There is no measurement of the accuracy of replies to counter enquiries similar to that done for telephone enquiries.

16.75 The Department should collect information on waiting times for comparison to existing standards. The Department should determine whether it is feasible to obtain an objective measurement of accuracy of replies to counter enquiries.

Department's response: *Although we do not measure waiting times, it is routine practice to augment our counter staff in light of demand. Nevertheless, we recognize the importance of* *counter service to our clientele and we will explore other ways of measuring the accuracy of this service including enhancing the use of our exit survey cards.*

Correspondence

16.76 General correspondence is handled mainly in NRT's seven taxation centres and, to a lesser extent, in district offices. Letters include questions about income tax publications or forms, taxpayers' accounts or their income tax returns. NRT's objective is to provide an accurate written answer within 30 days of receipt of a taxpayer's letter.

Systems are in place to ensure correspondence is complete, accurate and timely

16.77 In taxation centres, a computer system is used to monitor correspondence received, replies sent, response time, and the length of time each unanswered letter has been in inventory. In district offices, a register is usually kept that records taxpayer name, type of request, and the date a request is received. The completeness, accuracy and timeliness of replies to taxpayers are reviewed regularly by local management and periodically by Internal Audit and Quality Review of district offices and taxation centres.

Forms and Publications

16.78 NRT makes available to the public approximately 960 forms, 510 interpretation bulletins and information circulars, and 90 guides and pamphlets. In total, more than 175 million copies of these were printed during 1990. The number of forms and publications is increasing each year.

The Department is taking steps to improve its publications

16.79 NRT must prepare forms and publications that use simple language to accurately explain complex points of law and provide other information needed by its clients.

16.80 Documents can be rated according to the level of education a person would need to read and understand them. This is referred to as a "readability" rating. For example, a document with a readability level of grade 8 should be understood by a person with at least that level of education.

16.81 NRT has not set readability targets for its authors or editors. Rather, it tries to tailor each publication according to the anticipated audience. However, in all cases, the philosophy is "the simpler the better".

> *A readability team has been established to review and help simplify some newly written or updated publications.*

16.82 NRT has recently taken a number of initiatives towards this goal:

- A readability team has been established to review and help simplify some newly written or updated publications.
- Writers and editors attend a course to teach them how to write in plain language.
- Readability guidelines for authors are being developed.
- Focus groups, comprising cross-sections of people who would use a particular form or publication, are brought together to review existing or new material. A number of external groups are also asked to assess publications. Comments from all sources are considered, and changes are made as appropriate.
- Some publications are being written in both official languages rather than being written in one and translated into the other.

Publications are becoming easier to read but are still not understandable to a large percentage of the adult population

16.83 Readability studies recently carried out by consultants for NRT on three of its tax guides showed that, on average, they fall in the grades 11 to 13 range. Using similar methodology, we examined four other popular departmental tax guides, including the General Tax Guide. Three of the guides had been reviewed by the NRT readability team. We found that, on average, readability scores fell in the grades 9 to 10 range. The guides were easier to read than earlier versions. Readability scores varied considerably in passages from different parts of the same guide. Scores in individual passages from guides examined by NRT's consultants and ourselves ranged from grades 7 to 16. (In this scoring system, grade 16 is equivalent to three or four years of university training.)

16.84 The formulae used to measure readability look only at such things as word, sentence and paragraph length. The formulae do not consider other important features that have an impact on readability, such as content, organization and development of ideas, and layout of material. In our examination, we looked at these other features and concluded that here, too, much improvement was evident.

16.85 The fact that NRT's guides are written, on average, at the grades 9 to 13 level implies that they are still not understandable to a large percentage of the adult population. Statistics Canada reported in 1990 that 63 percent of adult Canadians can handle most everyday reading demands; 22 percent have limited reading abilities and can use only material that is simple and clearly laid out and involves tasks that are not too complex; and 15 percent are unable to deal with even simple materials. Almost 6.5 million adults fall inside

Exhibit 16.4

USING PLAIN LANGUAGE IN TAX GUIDES

1989 GUIDE		**1990 GUIDE**
General Tax Guide:	*Improved by:*	**General Tax Guide:**
"... the spouse with the higher net income for the year (*before including family allowance and deducting child care expenses and "social benefits repayment")* must report the family allowance received by you or your spouse."	*moving a clause to a separate sentence*	"... the spouse with the higher net income for the year must report the family allowance, no matter who received the cheques. *For this purpose, calculate net income without including family allowance and deducting child care expenses and the social benefits repayment."*
Child Care Expenses Tax Guide:		**Child Care Expenses Tax Guide:**
"*In either of these cases,* you must attach a statement ..."	*removing unnecessary words*	"You must attach a statement ..."
Rental Income Tax Guide:		**Rental Income Tax Guide:**
"If you make this election, there is *no deemed disposition* of your principal residence ..."	*using simpler words*	"If you make this election, you are *considered not to have disposed of* your principal residence ..."

Source: Departmental publications

the second and third categories. Of these, over 2 million have completed at least secondary schooling.

16.86 While it seems unrealistic to expect NRT to be able to reach the 15 percent of adults who are unable to deal with even simple materials, it may be able to reach those with limited reading ability. If NRT's publications are now more difficult than the materials Statistics Canada considered to represent "everyday reading demands", then even some of the 63 percent of adults who are most literate will be unable to understand them. This conclusion seems very likely when one considers that certain passages score at a grade 16 (see paragraph 16.83) readability level. The Department would need to simplify its publications further and to make the readability level consistent within each of them to be assured of reaching this group.

16.87 By the end of our audit, the Department's readability team had been able to work on only 12 publications, but had plans to do more.

> *Improved guides may result in fewer taxpayer errors on returns, which could result in reducing resources used for processing returns.*

16.88 The benefit of having more easily understandable guides may accrue to the Department as well as to taxpayers. Since the answers to 75 percent of questions posed to general enquiries agents can be found in the General Tax Guide, further improvements to the Guide may have the effect of reducing general enquiries. This would free resources to be used for other purposes. Improved guides may also result in fewer taxpayer errors on returns, which could result in reducing resources used for processing returns.

16.89 The Department should perform a study to estimate the benefits that would result from making its publications easier to read and understand. The Department should ascertain, from the findings of the study, whether improvements to publications are being given appropriate priority and adequate resources.

Department's response: *Further study is not required. Improved readability is a long-standing departmental priority and is a major consideration in the writing of departmental publications. While recognizing the complexity of the subject matter, all new publications are written in consideration of the target audience.*

The Department has a readability program in place which includes a Readability Team and a training course on writing in plain language for employees working on publications. In addition to those initiatives referenced in paragraph 16.94 of this report, the new TI 65 Plus and TI No-Cal returns permit many individuals to complete their returns with little or no reference to the guide.

We supplement our written publications with a public enquiries service, small business seminars, videos, and other activities geared towards public education. For many years, the Volunteer Program and the tax preparation session have assisted those individuals who are unable to make use of our other information services. Our goal is to reach all Canadians through the best means available.

Some forms and publications are not available on time

16.90 Forms and publications should be available to taxpayers when needed. Distribution of forms and publications is a major task for the Department. For example, 24 million T1 returns are printed and distributed annually.

16.91 In many instances, forms and publications were provided to district offices after the scheduled date. We found that some forms and publications were not available when requested or were made available to the public only days before they were due to be filed. Certain forms and publications were held up due to delays in the passage of related legislation. Many thousands of back orders were being held in district offices pending receipt of required material.

16.92 The fact that materials are not available when needed causes inconvenience and aggravation to the taxpayer and additional workload and mailing costs to the Department.

Education and Special Services Programs

16.93 NRT's education programs give current and potential taxpayers a better understanding of their rights and obligations under tax law and show them how to complete their income tax returns. They are meant to make it easier for taxpayers to comply with the law.

16.94 The program entitled Teaching Taxes has been offered by NRT for about 20 years. Four more recent programs are: Small Business Tax Seminars, Tax Preparation Sessions, Distance Education, and a video, Stepping Through Your Tax Return. (Distance Education is noteworthy for its innovative use of communications technology: Taxpayers in remote communities can gather to receive help completing their returns via television monitors from an NRT employee located in an urban centre.)

16.95 NRT has various programs to help taxpayers complete their income tax returns, including the Community Volunteers Program and the Native Peoples Outreach Program.

16.96 Certain NRT initiatives are meant to help taxpayers with very simple tax situations. For example, the Department recently introduced T1 65 Plus and T1 Short returns, which have easy-to-read large print with only 11 and 32 lines respectively and require no calculations. NRT also issued a special three-year Federal Sales Tax Credit return for senior citizens to apply for unclaimed tax credits.

16.97 Besides the taxpayer assistance programs described earlier, NRT gives help to people with special needs:

- Hearing and visually impaired individuals are served through toll-free, bilingual enquiry services.
- Guides and other publications are available in braille, in large print or on audio cassette.
- Services are advertised in foreign language newspapers.

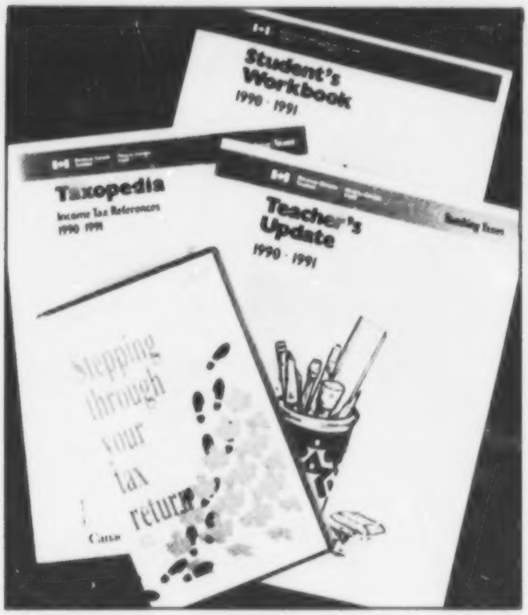
Determining the Benefits and Costs of Service Activities

16.98 NRT needs to know whether its service activities are achieving their objectives and contributing to the accomplishment of the Department's mission. It needs to know whether the benefits obtained from service activities are worth the cost. Such information would help NRT to determine whether any new activities should be introduced or whether existing activities should be expanded, cut back or discontinued.

16.99 The Department has not performed program evaluations or other analyses that provide answers to these questions. In the absence of such information, it cannot demonstrate that its resources are optimally deployed between service and enforcement activities or among service activities.

16.100 The Department should evaluate the costs of its service programs in relation to their contributions to stated objectives and determine the appropriate allocation of resources.

Department's response: *Because the Department is committed to the highest possible level of service quality, new service programs are piloted and tested while existing programs are periodically examined to determine their current appropriateness and cost effectiveness. Two examples where such evaluations were conducted are the Seasonal Tax Assistance Centre and the Telerefund programs.*



National Revenue - Taxation's education programs are meant to make it easier for taxpayers to comply with the law (see paragraph 16.93).

As we begin implementing measures designed to improve our service, we intend to build in evaluation mechanisms to provide feedback on the progress achieved.

Accountability

Performance reporting concentrates on volume data, not on quality

16.101 The government's White Paper, Public Service 2000: The Renewal of the Public Service of Canada, states that: "Deputy Ministers will establish clear standards of service, and will be accountable both for the reasonableness of those standards and for the quality of the service provided to the public." In a similar vein, we believe that Part III of the Estimates should report to Parliament on the quality of services provided compared to service standards that the Department can justify as reasonable in relation to client expectations.

16.102 NRT's Part III of the Estimates for 1991-92 contains only information on service volumes over time, such as the number of telephone enquiries received, letters answered, and certain publications printed. Other significant information relating to the quality of the Department's services should be developed and included in Part III of the Estimates to provide a clearer and more complete picture of NRT's performance.

16.103 The following measures are illustrative, but have not yet been proven to be representative of the quality factors that clients find important. Nor has it yet been shown how those measures that are internally focussed correlate with overall indices of client satisfaction.

- **Telephone enquiries:** Percentage of calls that get a busy signal; average time that taxpayers have to wait in the call queue before reaching an agent; percentage of calls in the queue that are abandoned before reaching an agent; and percentage of questions answered correctly.

- **Counter service:** Average time that taxpayers have to wait before being served.

- **Written enquiries:** Average time to reply to a taxpayer request and percentage of questions answered correctly.

- **Forms and publications:** Number of readability reviews performed and readability levels achieved compared to target levels.

> *"Deputy Ministers will establish clear standards of service and will be accountable both for the reasonableness of those standards and for the quality of the service provided to the public."*

16.104 Since performance will likely vary throughout the year, NRT could disclose the percentage of time that standards are met or not met. Results of satisfaction surveys could be disclosed.

16.105 In December 1990, the Treasury Board approved NRT's new Operational Planning Framework. In its submission to the Treasury Board, the Department listed several proposed performance measures, some of which are the same or similar to those suggested above. NRT's 1991-92 Part III of the Estimates notes the Department's intention to expand its reporting of performance information in Part III based on the new Framework.

16.106 The Department should develop and report in Part III of the Estimates measures of the quality of its services to accompany volume measures. Relevant standards should also be reported as a basis for comparison.

Department's response*: As the Auditor General's report notes, the Department is developing performance indicators that will deal with the quality of service to our clients. Many of these measures are similar to those listed by the Auditor General. In fact, we noted in our 1991-92 Part III of the Estimates that we will expand performance reporting and thus measure the quality of service. The 1992-93 Part III will reflect this.*

As our information measurement systems mature, we hope to develop increasingly accurate indicators of performance. As a matter of course, such measures will be included in Part III of the Estimates.

Conclusion

16.107 As stated earlier, our audit objective was to determine whether National Revenue - Taxation's programs for providing general services to the public are managed with due regard for economy and efficiency, and whether satisfactory procedures have been established to measure and report on effectiveness. We also wished to determine whether Parliament is kept adequately informed of results.

16.108 Our findings show that there is some variation in the extent to which NRT has demonstrated due regard for economy and efficiency. The Department has devoted much effort to studying its operations with a view to identifying and correcting problems. This chapter notes many departmental initiatives aimed at enhancing economy, efficiency and effectiveness. Some improvements are already evident. However, there remain further opportunities for improvement.

16.109 In our view, a necessary step toward realizing these opportunities is setting up a full range of service quality standards based on knowledge of client expectations. NRT has standards, but they may not reflect client expectations to a reasonable extent. A natural corollary to this is the measurement and reporting of performance in relation to the standards. Another vital step is to perform evaluations to determine whether all of the Department's activities, and this need not be restricted to service activities, are contributing to its ultimate aims and whether the Department is appropriately allocating its resources to various activities.

16.110 With respect to accountability, we conclude that, because NRT's Part III of the Estimates focusses on service volume rather than service quality, Parliament has not been kept adequately informed of results, even in those areas where performance information presently exists.

Chapter 17

Department of Public Works
Office Accommodation Planning and Leasing

Department of Public Works

Office Accommodation Planning and Leasing

Main Points

17.1 The Department of Public Works (DPW) is responsible for providing office accommodation to federal departments and agencies and for furnishing other real property services. DPW accommodates about 155,000 government employees in 4.8 million square metres of office space across the country. Leased office space represents over 40 percent of the total and requires annual rental expenditures of $379 million (paragraphs 17.9 to 17.12).

17.2 The government has introduced some important changes in the management of real property in response to our 1984 comprehensive audit of DPW and other studies. However, at the time of our current audit, certain fundamental accommodation issues remain unresolved (17.13). These include:

- the service and control roles of DPW (17.25 to 17.32);
- the question of whether departments should pay rent for accommodation (17.33 to 17.38); and
- long-term accommodation planning and investment strategies (17.39 to 17.46).

17.3 It is our view that resolution of these issues would facilitate essential reforms in the planning and acquisition of leased office space.

17.4 Although the government has taken steps to make the planning and acquisition of leased accommodation more businesslike, we believe that improvements can still be made in the following areas:

- defining tenant departments' requirements (17.52 to 17.61);
- delivery times (17.62 to 17.68);
- the tendering process (17.69 to 17.75);
- meeting small space requirements (17.76 to 17.78); and
- market surveys and rental costs (17.79 to 17.87).

17.5 Government initiatives such as Public Service 2000 are emphasizing greater choice and fewer detailed controls in providing government services. This is an opportune time for DPW to address persistent, systemic problems in office accommodation planning and leasing (17.88 to 17.93).

Table of Contents

Paragraph

Introduction 17.6

Background 17.9

Government Real Property Initiatives 17.13

Audit Scope 17.15

The Government Accommodation Leasing Process 17.21

Fundamental Accommodation Issues 17.24

- DPW's Service and Control Roles Are Difficult to Manage 17.25
- Should DPW Charge Rent for Office Accommodation? 17.33
- Improvements Required in Accommodation Planning and Investment Strategy 17.39

Areas for Improvement in the Acquisition of Leased Office Space 17.47

- Defining Tenant Departments' Requirements 17.52
- Delivery Times 17.62
- Tendering 17.69
- Meeting Small Space Requirements 17.76
- Market Surveys and Rental Costs 17.79

Conclusion 17.88

Exhibits

17.1 Major Government Initiatives on Real Property Since 1986
17.2 Major Steps in the Leasing Process
17.3 DPW Players Involved in the Leasing Process
17.4 Federal Organizations That Affect DPW's Management of Real Property
17.5 Case Study: Block 56, Vancouver, B.C.

Department of Public Works

Office Accommodation Planning and Leasing

Introduction

17.6 In an effort to achieve greater efficiency in its operations, the government is introducing a number of initiatives based on Public Service 2000 (PS 2000). The PS 2000 report points out the need to simplify rules, streamline operations and delegate more authority to the "front lines". It states that this can be done while maintaining fairness, transparency and probity in government operations. Our examination confirmed the potential for achieving greater efficiency with respect to the acquisition of leased office space by the Department of Public Works (DPW).

17.7 Over the past five years, DPW and the Bureau of Real Property Management within the Treasury Board have taken steps to make the acquisition of leased office space more businesslike. However, at the time of our audit, DPW was at a crossroads because, despite all the efforts and past research, certain fundamental accommodation issues (the service and control roles of DPW, the question of whether departments should pay rent for accommodation, and long-term accommodation planning and investment strategies) remained unresolved. Resolution of these issues would facilitate essential reforms in the planning and acquisition of leased office space.

DPW has an opportunity to become more responsive to the accommodation requirements of its tenant departments and to reduce costs by streamlining its leasing operations.

17.8 This chapter shows that, in the spirit of PS 2000, DPW has an opportunity to become more responsive to the accommodation requirements of its tenant departments and to reduce costs by streamlining its leasing operations.

Background

17.9 DPW is responsible for the provision of office accommodation to federal departments and agencies and for furnishing other real property services.

17.10 In providing these services, the Department has two major roles: as a common service agent and as a custodian. In its common service agent role, the Department provides its own Accommodation Branch, other government departments, and government agencies with services related to building design (architectural), engineering, real estate and property management. These services are provided at market-based rates.

DPW accommodates 155,000 government employees in 4.8 million square metres of office space. Leased office space represents over 40 percent of the total and requires annual rental expenditures of $379 million.

17.11 As a custodian, the Department is responsible for the administration and control of general purpose office accommodation and a variety of other real property, such as bridges, highways, dams and the Parliamentary Precinct. The costs of general purpose office accommodation are financed, for the most part, from DPW's appropriations.

17.12 DPW accommodates about 155,000 government employees of 104 federal departments and agencies in 4.8 million square

Exhibit 17.1

MAJOR GOVERNMENT INITIATIVES ON REAL PROPERTY SINCE 1986

1986	The Bureau of Real Property Management, reporting to the Secretary of the Treasury Board, was established as the single window in government responsible for central policy and co-ordination of all real property activities.
	User departments were assigned administration of special purpose facilities (e.g. research facilities). DPW retained responsibility for custody and administration of general purpose office and common use facilities.
	DPW was reorganized, and responsibility for the Real Property Program (Accommodation Branch) was separated from other DPW functions (Services Program: Realty Services; Architectural and Engineering Services; and Corporate Services). This created a buyer/seller relationship within the Department, as Accommodation Branch, now the custodian of the government's general purpose space, purchases all of its services from the Service Branches.
	Government architectural and engineering resources were consolidated within DPW.
1988	DPW introduced "market-based charging" and revenue dependency for its Services Program.
1989	DPW became responsible for administration of office space control guidelines (Chapter 120 of Treasury Board's Administrative Policy Manual). DPW is now required to report exceptions to the Treasury Board.
	Treasury Board increased DPW's delegated authority to enter into competitive lease and lease renewal contracts from $200,000 to $1,000,000 (annualized over the lease term). DPW was to develop a more transparent and consistent system of tendering and evaluating lease proposals.
1990	Treasury Board approved a new policy concerning the management of federal real property. This policy stated that real property would be acquired, managed or retained only to support the delivery of government programs and would be done in a manner consistent with sustainable development.
	The government's response to the PS 2000 Task Force concurred that greater discretion be given to client departments in using Realty Services and Architectural and Engineering Services and that the latter become optional in 1992.

metres (1,200 acres) of office space across the country. This space includes 380 Crown-owned office buildings, 9 lease-purchase facilities, and 2,446 leases. In recent years, the government has relied increasingly on leased premises to meet its office space needs. Leased office space in 1991-92 is estimated to be 2 million square metres (over 40 percent of total office space) and requires annual rental expenditures of $379 million. DPW conducts over 1,000 leasing transactions each year.

Government Real Property Initiatives

17.13 The government has introduced some important changes in the management of real property as a result of the recommendations in our 1984 comprehensive audits of DPW and Management of Real Property and the 1985 Nielsen Report, Ministerial Task Force on Program Review, Real Property (see Exhibit 17.1).

17.14 One response to the Nielsen Task Force's recommendations was the transfer of custody of special purpose space to the responsible tenant department. An important objective of the custody transfer was to streamline DPW's custodial role, allowing the Department to focus on its office accommodation role and service to tenants. As a result, DPW has retained responsibility for approximately 20 percent of the total federal inventory (measured in square metres of building space); other departments and agencies are responsible for the remaining 80 percent, which includes buildings such as laboratories, airports, warehouses and military establishments.

Audit Scope

17.15 We examined the acquisition of leased office space for accommodation of government employees. We focussed on lease acquisitions because of the large annual rental expenditures and the increasing use of leased premises to meet government office space requirements. Our audit objective was to determine whether DPW acquired leased office space in the most economical and efficient manner and complied with the Treasury Board Contracting Policy and Guidelines.

17.16 We reviewed the Department's accommodation planning activities and leasing process for office space. The audit concentrated on the Planning, Definition and Implementation Phases of the accommodation/leasing process as shown in Exhibit 17.2. These three phases of DPW's Project Delivery System contain the key tasks in the acquisition of leased space.

17.17 To understand the historical context, we analyzed the results of previous studies of the Department conducted by various independent groups, including two Royal Commissions (Glassco in 1962 and Lambert in 1979), the Standing Senate Committee on National Finance (1978) and the Ministerial Task Force on Program Review (1985 Nielsen Report). To supplement the audit work with a cross-section of opinion on office leasing issues, we interviewed DPW staff in all regions and headquarters, facilities management staff of selected tenant departments, and several representatives of the real estate industry.

17.18 To examine specific leasing transactions in two regions, we selected a random sample, based on dollar values, of new and renewed leases whose terms began between 1 January 1989 and 31 July 1990. We selected this period because, on 1 January 1989, Treasury Board transferred to DPW the responsibility for administering the government's office accommodation policy (Chapter 120 of the Treasury Board's Administrative Policy Manual). Chapter 120 deals with tenants' accommodation entitlements (space, location, fit-up), which may lead to the acquisition of office space through leasing. To support the Chapter 120 transfer and its management philosophy of Increased Ministerial Authority and Accountability, in 1989, the Treasury Board introduced major revisions to the policy and guidelines on contracting and granted the Minister of Public Works increased authority to enter into lease contracts without prior Treasury Board approval.

17.19 Our sample of 28 leases was limited to two regions: Pacific and Quebec. We excluded the Western, Ontario, Atlantic and National Capital Regions from our detailed testing, because the Department's Management Audit and Program Evaluation Directorate was conducting a compliance audit of leasing in those areas. At the date of writing this report, the results of the internal leasing audit were not available. We will review the internal audit work when it is completed.

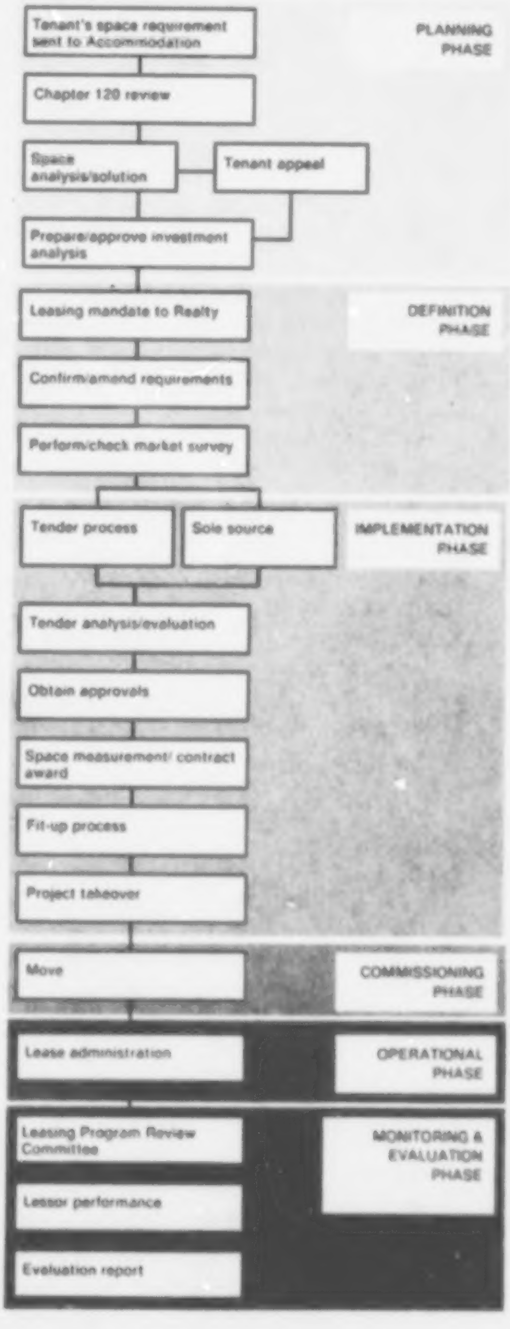
17.20 In order to determine if the rents being paid by DPW were in line with those charged for comparable space, we employed real estate appraisers to perform independent market value appraisals. This was an essential "test of economy" in our audit.

The Government Accommodation Leasing Process

17.21 The Treasury Board Manual on Real Property Management states that Public Works is the designated custodian of general purpose office facilities provided on a mandatory basis

Exhibit 17.2

MAJOR STEPS IN THE LEASING PROCESS


Tenant's space requirement sent to Accommodation
PLANNING PHASE
Chapter 120 review
Space analysis/solution
Tenant appeal
Prepare/approve investment analysis
Leasing mandate to Realty
DEFINITION PHASE
Confirm/amend requirements
Perform/check market survey
Tender process
Sole source
IMPLEMENTATION PHASE
Tender analysis/evaluation
Obtain approvals
Space measurement/ contract award
Fit-up process
Project takeover
Move
COMMISSIONING PHASE
Lease administration
OPERATIONAL PHASE
Leasing Program Review Committee
MONITORING & EVALUATION PHASE
Lessor performance
Evaluation report

Leasing projects are managed in accordance with the Department's Project Delivery System, which consists of the following phases:

The Planning Phase begins with the tenant department identifying a need for office space and ends with an agreement by DPW's Accommodation Branch to supply the space. The tenant's request is validated. DPW determines whether or not the requirement can be met from existing inventory. It then determines how the request will be met and obtains requisite approvals.

The Definition Phase involves defining the requirements and goals of the project to acquire the needed space in sufficient technical detail for implementation to proceed. This information is vital to the procurement process.

The Implementation Phase of a project, depending on several factors, may involve direct negotiation or single-stage or two-stage tendering. The principal steps include preparation of the acquisition strategy; preparation of specifications and criteria; tendering period (if used); analysis of bids or offers; obtaining of approvals; awarding of the contract; and, negotiation and awarding of the fit-up agreement.

The Commissioning Phase is used to verify that the end product corresponds to the terms of reference specified for the lease project.

The Operational Phase begins after commissioning has been completed and Accommodation Branch has requested that Realty Services Branch administer the lease.

The Monitoring and Evaluation Phase is the assessment of project performance and the completion of the evaluation report.

Source: DPW Leasing Manual

to federal departments and agencies listed in Schedules I and II of the Financial Administration Act and on an optional basis to other federal organizations. This mandate gives DPW a monopoly position in leasing office space for tenant departments.

17.22 The main features of government leasing are:

- Tenant departments specify their space requirement.
- DPW exercises a control function by reviewing and approving the specified requirement.
- Most tenant departments obtain their office space (about 70 percent of DPW's space inventory) without charge; commercial tenants and departments funded through revenue sources pay rent on the remaining 30 percent of the inventory. All tenants pay for "tenant services", i.e., interior renovations after occupancy.
- DPW seeks to be responsive to the government's social, economic and environmental objectives.

17.23 To accommodate these factors, DPW has put in place a leasing process that involves a multiplicity of players within the Department (see Exhibit 17.3). In addition to meeting tenant departments' needs when leasing space, DPW must also be responsive to other federal organizations, the private sector, and other levels of government. Exhibit 17.4 shows the principal federal organizations involved in DPW's real estate activities.

Fundamental Accommodation Issues

17.24 As noted previously, long-standing government accommodation issues (the service and control roles of DPW, the question of whether departments should pay rent for accommodation, and long-term accommodation planning and investment strategies) remain unresolved despite years of discussion and study. This section describes these fundamental issues and the uncertainties created for office accommodation planning and leasing operations.

DPW's Service and Control Roles Are Difficult to Manage

17.25 In fulfilling its responsibility to provide general purpose office facilities for departments and agencies, DPW is required to play two distinct roles. Firstly, as a service organization, it must respond to requests for space in a timely manner so that departments and agencies can operate their programs efficiently and effectively. Secondly, as a control agency, it must ensure that requests for space are met with optimum use of existing inventory (Crown-owned and leased), best value for money, and integrity in the tendering process; also, within limited resources, DPW has to assign priorities to competing requests from different tenant departments.

17.26 Recent surveys conducted on behalf of DPW have confirmed that both the lack of timeliness in meeting tenants' needs and DPW's control role were sources of tenant dissatisfaction. PS 2000, which reviewed the role of common service agencies, noted that the services provided by DPW were of more concern to public service managers than any other common service area. It reported that clients were frustrated with the system, particularly with the slowness of DPW's response in acquiring facilities.

17.27 Effective 1 January 1989, a decision was made to fundamentally change the relationships among DPW, its tenant departments and the Treasury Board. Treasury Board transferred to DPW the responsibility for administering the policies contained in Chapter 120 of the Treasury Board's Administrative Policy Manual that affect DPW-managed accommodation. The essence of the transfer will be to shift control over government office accommodation (quantity, quality, location) from Treasury Board to DPW through a four-phase

Exhibit 17.3

DPW PLAYERS INVOLVED IN THE LEASING PROCESS

FUNCTION

	PLANNING PHASE	DEFINITION PHASE	IMPLEMENTATION PHASE		COMMISSIONING PHASE
PARTICIPANTS	Needs Definition, Analysis and Validation	Project Definition	Tendering	Fit-up and Relocation	
Tenant	X			X	X
Asset Management	X				
Investment Management Project Leader	X	X	X	X	X
Project Manager Leasing	X	X	X	X	X
Architectural and Engineering Services	X		X	X	X
Technical Services	X		X	X	
Implementation Section	X		X	X	X
Legal Services			X		
Investment Management Board / Treasury Board	X		X	X	
Property Management	X		X		X
Contract Policy and Administration, Corporate Management	X		X		
Acquisition and Disposal	X				
Client Services					X

Adapted from: DPW Leasing Manual

process, the first two phases of which have been completed.

17.28 In meeting the office accommodation requirements of departments and agencies, DPW must ensure compliance with the relevant authorities and standards. This can delay the process and generate tenant dissatisfaction. Successful implementation of Chapter 120 accommodation policies depends upon DPW being able to temper its control role with sensitivity to tenant departments' needs. DPW's efforts to balance the service relationship with the control aspects of government office accommodation policies, coupled with inconsistencies (real and perceived) in providing office accommodation, often bring DPW into conflict with its clients over the timeliness of meeting their space requirements and over the quantity, quality or location of space provided.

17.29 The office accommodation control limit and fit-up cost limit contained in Chapter 120 illustrate the inadequacies of using outdated control standards:

- **Office accommodation control limit:** This limit was developed in the 1970s and is calculated according to the average salary levels in an organization. This approach was based on studies that showed a correlation between average salary levels within an organization and functional space needs. Since then, however, the rapid spread of information technology has revolutionized the nature of office work. In addition, departments and agencies are increasingly aware that the quality of the workspace affects employee performance and productivity; however, DPW has been unable to meet their expectations concerning the location, quantity and quality of office space. Despite the recognition that the accommodation control limit is outdated, DPW continues to use it to validate departments' and agencies' space requests.
- **Fit-up cost limit:** In 1984, we reported that the per square metre fit-up cost limit of $82.85 that had been established by Treasury Board in 1977 was outdated; costs had increased significantly, and DPW was spending a lot of time and resources obtaining Treasury Board approvals for exceptions to the limit. In 1990, the fit-up cost limit had still not been changed. DPW continues to monitor and report cases where this limit is exceeded.

Successful implementation of government accommodation policies depends upon DPW being able to temper its control role with sensitivity to tenant departments' needs.

The Transfer to DPW of Responsibility for Office Accommodation Policy

Phase 1 (Completed)

Approval-in-principle of the Chapter 120 transfer and implementation plan.

Phase 2 (Completed)

Transfer of responsibility for administering existing policies. DPW can approve exceptions to limits on the quantity, quality or location of accommodation provided to tenants, but must report the exceptions to Treasury Board.

Phase 3 (Ongoing)

Transfer of authority to develop and enforce accommodation policies and standards (subject to Treasury Board approval). Since this transfer has not yet taken place (at the time of writing this report), Treasury Board (not DPW) still has the authority to make accommodation policies and standards.

Phase 4

After sufficient experience with the new system, Treasury Board will evaluate the increased managerial control of the accommodation program within DPW, including an assessment of the value of implementing revenue dependency.

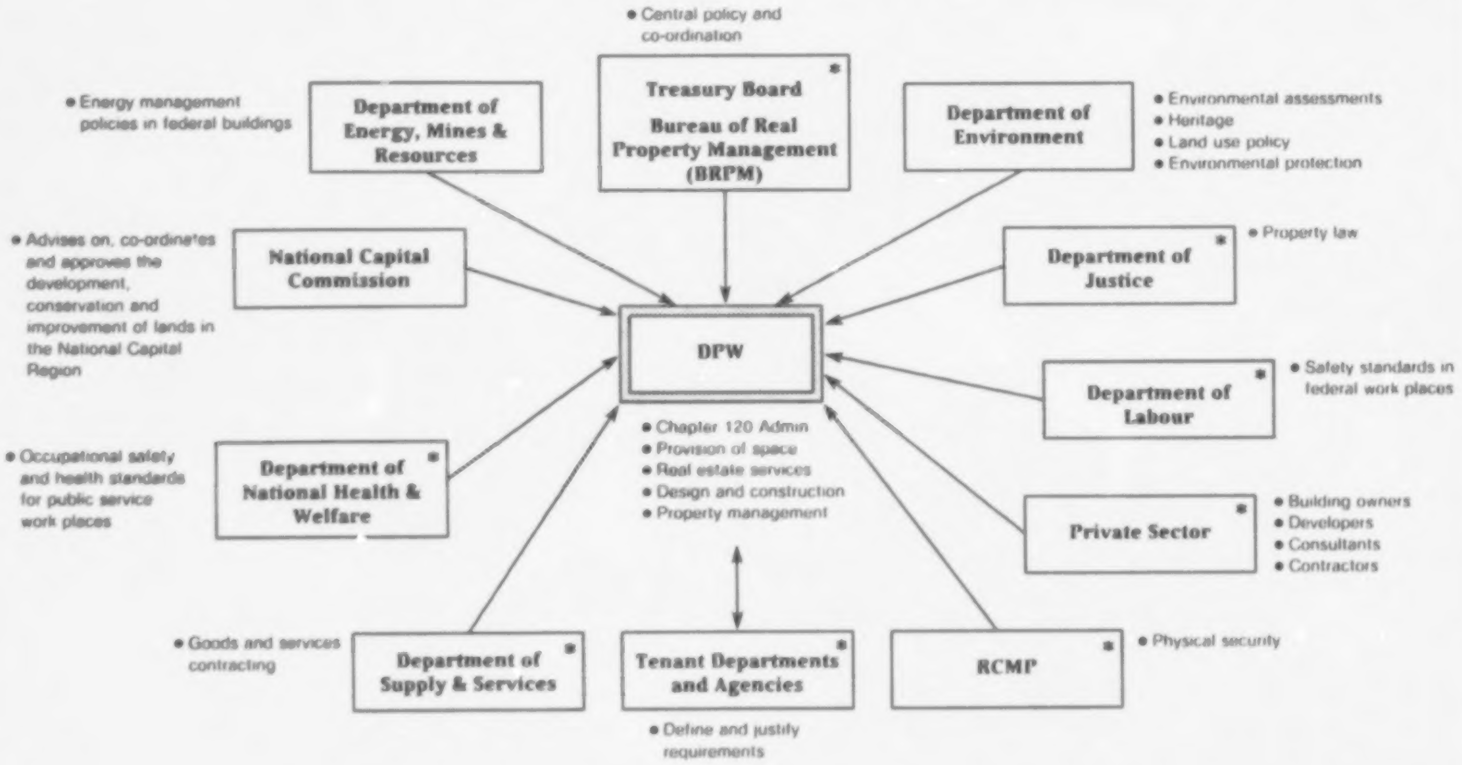
Prior to the transfer of Chapter 120 to DPW, given the inadequacies of the above space control and fit-up cost limits, disputes over accommodation were quickly elevated to Treasury Board for decision, and the Board routinely approved exemptions to its own standards.

17.30 The Department has initiated a pilot project in conjunction with four leading tenant departments to develop new office accommodation standards (subject to Treasury Board approval) based on the functional requirements of tenants. This may reduce the conflict between DPW and departments by helping to ensure that accommodation decisions better support the program delivery needs of tenant departments; it would also enable DPW to put more emphasis on its service role.

17.31 DPW is responsible for preparing regular reports to Treasury Board showing

Exhibit 17.4

FEDERAL ORGANIZATIONS THAT AFFECT DPW'S MANAGEMENT OF REAL PROPERTY
(* LEASING ACTIVITY)


• Central policy and co-ordination
Treasury Board Bureau of Real Property Management (BRPM) *
• Energy management policies in federal buildings
Department of Energy, Mines & Resources
Department of Environment
• Environmental assessments
• Heritage
• Land use policy
• Environmental protection
• Advises on, co-ordinates and approves the development, conservation and improvement of lands in the National Capital Region
National Capital Commission
Department of Justice *
• Property law
DPW
• Chapter 120 Admin
• Provision of space
• Real estate services
• Design and construction
• Property management
Department of Labour *
• Safety standards in federal work places
• Occupational safety and health standards for public service work places
Department of National Health & Welfare *
Private Sector *
• Building owners
• Developers
• Consultants
• Contractors
• Goods and services contracting
Department of Supply & Services *
Tenant Departments and Agencies *
• Define and justify requirements
RCMP *
• Physical security

In addition to satisfying the tenant department's accommodation requirements, DPW is involved with numerous other federal organizations, the private sector and other levels of government (not shown).

Adapted from: Treasury Board Manual on Real Property Management cases where the office accommodation standards have been exceeded. In order to do this, the Department requires information about the amount of space each department holds in excess of its authorized limits. The Department informed us that there were problems with the accuracy and completeness of the space data. In the absence of reliable statistics on the amount of space utilized by departments, DPW cannot meet its own and Treasury Board's information requirements.

17.32 DPW needs to clarify and communicate its service and control roles for the benefit of tenant departments. DPW also needs, within a reasonable time frame, to complete the development of appropriate accommodation standards based on tenants' functional requirements.

Should DPW Charge Rent for Office Accommodation?

17.33 Over the past 30 years, a series of royal commissions, studies from different levels of government, and reports by parliamentary committees have attempted to find a solution to major government accommodation problems. Most of the studies have recommended, among other things, revenue dependency as a possible solution to these problems. Under revenue dependency, tenant departments would receive appropriations from which they would pay rent to DPW based on the market rate for space occupied.

17.34 DPW, whose office accommodation activities encompass a large measure of commercial-type undertakings, has progressively implemented revenue dependency for its Realty Services and Architectural and Engineering Services Branches over the 1985-88 period. Moreover, PS 2000 suggested that client departments should have more choice in using these services. It recommended that Architectural and Engineering Services become optional effective 1 April 1992 and that some tenant services become optional where they do not affect a building's operating systems. The government agreed to these recommendations in its response (White Paper) to PS 2000.

17.35 Advocates of revenue dependency claim that making departments pay for their office accommodation would increase their awareness of its cost and make them accountable for it, thus restraining their space demands in terms of location, quality and quantity. This would in turn reduce the government's total accommodation costs.

17.36 Those opposed to revenue dependency have stated that giving tenants full control over their accommodation decisions is inadvisable in an area of such public sensitivity. The government would no longer be able to plan or control the location of federal office buildings and would lose the ability to promote "federal presence". (It is not clear, under revenue dependency, how much tenant departments would or should be charged for a location with "federal presence", which they may neither need nor desire). As a result, public works projects would no longer serve as direct vehicles for implementing the social, economic and other objectives of the government. With the transfer of Chapter 120 responsibilities to DPW, the accommodation program remains mandatory. Opponents of revenue dependency argue that to introduce this concept without giving tenant departments the freedom to choose their own office space and without forcing DPW to compete with the private sector would merely add to the administrative process and create little overall savings in accommodation. Accommodation costs would merely be passed through the tenant departments using an elaborate accounting and billing system.

17.37 In our view, time and experience have shown that the revenue dependency concept can work for common service agencies in some situations, but it is not a panacea. These agencies invariably require good management practices, appropriate management information systems, adequate controls and realistic performance measurement systems, no matter how they are organized or how their services are financed.

17.38 Following the Nielsen Report, Cabinet requested that the Minister of Public Works, in consultation with the President of the Treasury

Board, take action to operate DPW properties on a revenue-dependent basis under an Accommodation Revolving Fund starting 1 April 1987. In 1988, when it was decided to transfer the administration of Chapter 120 accommodation policies to DPW, Treasury Board decided to defer consideration of the issue of charging rent to all DPW tenants until the end of the implementation process. In Phase 4 of the process (as described in paragraph 17.27), Treasury Board will evaluate DPW's increased managerial control of the accommodation program and assess the value of implementing revenue dependency. The evaluation had not yet been conducted at the time of writing this report. Consequently, the future of revenue dependency for government accommodation is uncertain.

Improvements Required in Accommodation Planning and Investment Strategy

17.39 The need for DPW to develop a sound long-range accommodation planning process for effectively meeting the government's office space requirements has long been recognized. The 1962 Glassco Commission, the 1978 report of the Standing Senate Committee on National Finance, our 1984 comprehensive audit and the 1985 Nielsen Report all commented on the inadequate planning framework for office accommodation. In addition, the April 1985 report of the Standing Committee on Public Accounts recommended that DPW "develop a long-term plan for accommodation of government departments".

17.40 The objective of a well-functioning long-term accommodation planning process is to ensure the availability of the right facilities at the right time in the most economic manner to meet existing and projected demands. It should also ensure the optimal use of existing facilities.

17.41 DPW prepared a 10-year accommodation plan in 1985 in response to the Public Accounts Committee's recommendation. The plan was approved in principle by the Treasury Board, but DPW was instructed to seek project funding on a case-by-case basis. However, because of fiscal restraints or changes in government priorities, many of the large capital and leasing projects identified in the plan have been either deferred or cancelled.

17.42 DPW revised its 1985 plan in 1988. This update provided an estimate of the most likely volume of demand for capital acquisitions, renovations, and improvements over the next 10 years through to 1997-98 and the resources that would be required. Treasury Board reviewed the plan and approved a funding approach that required DPW to manage within existing resource levels with annual inflation adjustments. The Board also requested that DPW provide further information regarding the criteria and assumptions used in determining its estimate of the amount of Crown-owned and leased space required within the planning horizon.

17.43 Regional leasing strategies are a key component of an effective long-range accommodation plan and investment strategy. These strategies should address such fundamental issues as: When is leasing the most effective method of meeting office space needs? Should government offices be located in core or non-core areas of cities? What are the optimum terms for leases?

17.44 There are no leasing strategies for Vancouver and Montreal, the two largest cities in the regions we examined. DPW's multi-year operational plans note the need for preparing leasing strategies for major Canadian cities because of the unique real estate market conditions and the large government presence in metropolitan centres.

DPW's plans note the need for preparing leasing strategies for major Canadian cities.

17.45 Our findings illustrate the consequences to the government of the planning uncertainties noted above:

- DPW continues to have difficulty in developing a long-term accommodation plan and investment strategies due to inadequate information, particularly about current and future tenant requirements. As a result, property investment decisions in DPW are not being made within the framework of a government-approved long-term accommodation plan and property investment strategy.

- Although a limited number of government office buildings are still being constructed or renovated, fiscal restraints have virtually removed the option of Crown construction. The 1985 Auditor General's Report (paragraphs 9.73 to 9.81) noted an instance where the leasing of space to meet long-term accommodation requirements probably cost the Crown substantially more money than alternative arrangements, such as purchasing a property at fair market value.

- In some cases, DPW has entered into short-term leasing arrangements in anticipation of proposed Crown-owned buildings or other long-term solutions that did not materialize; these arrangements are due in part to external factors such as changes in operations requirements and government priorities. For example, in one property, involving two leases, the tenant department had asked for a five-year term, but DPW entered into a three-year term based on the expectation that a Crown-owned building would be available at the end of the period. However, the Crown-owned building was not available, and the additional cost to the government was approximately $100,000 over the term of the three-year lease, 6.3 percent greater than it would have been for a lease with a five-year term.

- In 1984, we reported the case of a downtown Vancouver property, Block 56, which has been owned by the government since 1972. Since 1985, the Pacific Region of DPW has generally limited lease terms in Vancouver to five years in anticipation of the construction of a major federal government office complex on Block 56. As outlined in Exhibit 17.5, proposals to develop this property are under discussion.

17.46 In our opinion, bearing in mind the current need for fiscal restraint and the case-by-case funding approach approved by the Treasury Board, the Department needs to prepare a long-term accommodation plan and investment strategies including, in particular, realistic property options (Crown-owned, lease purchase, short- and long-term leases) for housing tenant departments.

Areas for Improvement in the Acquisition of Leased Office Space

17.47 In the case of common service agencies such as DPW, PS 2000 notes that the advantages of providing services centrally are economies of scale, concentration of expertise and the fulfilment of other government objectives. The disadvantages are reduced choice, cumbersome procedures, excessive paperwork and difficulties in fulfilling client department mandates.

17.48 DPW's task in acquiring leased space is difficult: It operates in a fast-moving, commercial milieu, but must do so within the constraints imposed by its political and government environment. The Department has taken steps to improve client services and institute a more businesslike approach. However, DPW recognizes, and our work confirms, that more can be done to streamline its operations, providing greater flexibility in responding to tenant demands.

17.49 There are substantive differences between the way DPW leases space as compared to the methods generally followed in the private sector. The principal features of commercial leasing practices include: a market analysis to identify the most suitable properties (the tenant must be satisfied with the location and premises); intensive negotiations with potential landlords to identify all possible concessions; rapid closing of the deal as a complete leasing package (major terms and conditions including fit-up requirements); use of a standard industry lease; and fast turnaround times for the completion of leasing transactions.

Exhibit 17.5

CASE STUDY: BLOCK 56
Vancouver, B.C.

In 1972, DPW spent about $3.3 million to purchase a parcel of land, known as Block 56, in downtown Vancouver, for the purpose of constructing a large federal office complex. The complex was expected to provide approximately 100,000 square metres of office space. This was considered to be enough space to meet the long-term accommodation needs of several federal departments and agencies which, at the time, were housed either in Crown-owned space no longer considered suitable for occupancy or in leased premises. The project was also intended to facilitate the replacement or restoration of four old Crown-owned buildings that had deteriorated over the years and no longer met standards for health and safety.

In 1975, DPW hired an architect to prepare preliminary designs for Block 56. The project was halted in 1978, however, because of government austerity measures. The architect was paid almost $800,000 for the preliminary design.

In 1984, we reported that Block 56 had been appraised at about $17 million; the property was being used as a parking lot with annual rental income of $12,000. The 1990 appraised value of the property was $27 million.

Since 1972, the planned construction on Block 56 has affected DPW's leasing decisions. When Vancouver leases came up for renewal or departments and agencies requested DPW to provide them with more space or new premises, DPW entered into short-term leases with the expectation that the federal office complex of approximately 100,000 square metres would soon be built. The government's long-term accommodation requirements in Vancouver have been met by a series of short-term leases.

DPW has made several attempts to obtain the required approvals and funding to implement this project. However, efforts to date have been unsuccessful, and Block 56 remains undeveloped. The amount of office space leased by DPW in Vancouver has more than doubled from approximately 38,000 square metres in 1972 to approximately 100,000 square metres. Leased space currently represents about 76 percent of DPW's office space inventory in that city, compared to 35 percent in 1972. Annual rental payments over this period have increased from $3.1 million to $24 million.

At the date of writing this report, Block 56 was still used as a parking lot; however, development proposals for the property are under discussion.

17.50 In the private sector, property investment and accommodation decisions generally support specific corporate objectives. For example, location decisions are based on proximity to markets and suppliers. In short, the effects of property investment decisions can usually be measured and assessed. In the case of the government, however, it is generally more difficult to assess the impact of location decisions.

17.51 From our examination and discussions with DPW staff, tenant department officials and industry representatives, we identified five areas for improvement in the acquisition of leased office space:

- defining tenant departments' requirements;
- delivery times;
- tendering;
- meeting small space requirements; and
- market surveys and rental costs.

Defining Tenant Departments' Requirements

17.52 The accommodation/leasing process starts when a client department asks DPW to provide office space to meet a specific operational need. To accomplish this, DPW needs clearly defined space requirements. Without such a definition and agreement by both parties, the outcome of the leasing process may not be cost-effective. The process may be delayed or cancelled and restarted, and operational requirements may not be met.

Without clearly defined space requirements and agreement between the tenant department and DPW, the leasing process may not be cost-effective.

17.53 Tenant departments are responsible for producing and presenting DPW with an accurate definition of their space requirements. In our 1984 audit, we noted that client departments frequently did not clearly state their requirements as directed by Treasury Board. In addition, DPW did not always satisfy itself that all necessary information was provided to permit a judicious real property acquisition before commencing action on client requests.

17.54 In our current audit, we noted continuing difficulties in the definition of tenant requirements, an area of shared accountability between DPW and tenant departments. In general, tenants have to explain and justify their requirements to several groups within DPW's Accommodation, Realty Services and Architectural and Engineering Services Branches. This repetition is both time-consuming and annoying to tenants. It can also result in different interpretations of tenants' requirements and lead to disputes. The Department needs to streamline its method for defining and validating tenant requirements.

17.55 We found 11 cases, out of our sample of 28 leases, where problems occurred due to unclear, changed or misinterpreted requirements. In one lease, for example, a tenant department submitted an urgent request for approximately 4,500 square metres of office space. The request was submitted in early February 1988, and the space was required for occupancy by 1 July 1988.

17.56 In June 1988, DPW selected the lowest bid; however, the tenant rejected the proposed space on the grounds that it did not meet its requirements. After three months of discussion, DPW agreed that the space was unsuitable because of security considerations.

17.57 DPW then informed the second lowest bidder that they wished to negotiate a lease. By January 1989, these negotiations had broken down, and DPW selected another potential site. The tenant department agreed to the third proposed space and moved in at the end of May 1989, almost 11 months after the initially specified occupancy date.

17.58 Much of this delay was due to the confusion caused by poorly defined requirements. The acquisition process was started without a clear understanding of the client's specialized requirements.

17.59 In another case, in order to consolidate the space requirements of a major tenant, DPW undertook a tender call for a "build to lease" project (that is, a developer offers to build to DPW's specifications in return for a long-term lease). Nineteen months elapsed from the inception of the project to the date when the four qualified bids were analyzed. DPW's Realty Branch recommended selection of the lowest bid.

17.60 DPW's Accommodation Branch and the client department both stated that the lowest bid did not meet the tender specifications. The problem was eventually sent to the Deputy Minister and the Minister for resolution. However, in April 1989, before a decision was taken, the project was cancelled as part of the government's restraint program. Although the project did not proceed, this case illustrates that a disagreement over the evaluation of the requirements can result in extensive delays and significant costs for the tenant department, DPW and the bidders.

17.61 To avoid such situations, DPW should ensure that it has a clear understanding of the tenant's requirements and that these are agreed to by the appropriate branches of DPW and the tenant department before commencing the leasing process.

Delivery Times

17.62 There are opportunities for speeding up the leasing process. The amount of time DPW takes to carry out all the steps of a lease acquisition varies according to the amount of space needed, the urgency of the requirement, the availability of space in the chosen area and other factors. Following are the typical steps in the process, which are carried out within the framework of the Project Delivery System. (See details in Exhibit 17.2).

Steps in a Typical Lease Acquisition	Estimated Time
Validating tenant department's requirements and obtaining necessary approvals	5 months
Advertising, tendering and approval process	5 months
Layout planning and design	3 months
Preparing architectural and construction drawings for fit-up and awarding fit-up contract	3 months
Completing the fit-up construction and tenant move-in	2 months
Total	18 months

Source: DPW Pacific Region

17.63 From our audit, we noted one case where to lease and fit up 388 square metres of office space took 12 months. DPW followed the full leasing process despite the fact that their market survey identified only one suitable location in the prescribed area. Expressions of interest from landlords were requested by advertisement and, after analysis, only the space originally identified was deemed to meet the tenant's requirements. The landlord was then asked to make an offer using the "Standard Offer to Lease Form" (133 pages). Preparation and analysis of the offer took over two months.

17.64 We noted a similar case that took 20 months to lease and fit up 1,047 square metres of office space. The space was acquired in a competitive manner using public tenders. The fit-up work was contracted and implemented separately from the leasing of the space.

17.65 However, in another case involving 425 square metres of office space, only six weeks elapsed from the time the requirement was identified to the move-in date. This lease was acquired in a non-competitive manner by negotiating directly with the landlord. The tenant had identified a preferred location and accepted the premises with minor fit-up.

17.66 From our sample of leases and discussion with departmental officials, we found that lengthy delays can occur at all stages of the lease acquisition process, because of disputes with the tenant department, competing lessors and various other involved parties over location, suitability and detailed specifications of the space.

Lengthy delays can occur at all stages of the acquisition process for leased office space.

17.67 The Department is aware of these problems. In 1987 and in 1989, DPW used consultants to conduct client satisfaction surveys. The results of both surveys indicated dissatisfaction with DPW's lengthy and complex lease acquisition process. In the Expenditure Plans of both its 1990-91 and 1991-92 Part IIIs of the Estimates, DPW stated that it will seek to improve the time frames for delivery of leased accommodation from 12-24 months to 6-12 months.

17.68 During this audit, we requested Department-wide statistics from DPW that show the amount of time required to deliver leased space. Department officials responded that they were unable to provide this information. In the absence of such information, it is difficult for the Department to determine whether progress is being made in improving the timeliness of the delivery of leased space.

Tendering

17.69 Acquisition of space is subject to government contracting regulations, Treasury Board and departmental policies, all of which encourage the use of the competitive process to establish best value and price. For leasing projects, this means that, to the extent practical, DPW uses public tendering to encourage competition among potential lessors. One fundamental difference between the public and private sectors is the requirement for DPW to provide fair opportunities for suppliers to bid for government leases. These opportunities are provided through the use of public tenders, which require tenant departments and DPW to anticipate and specify detailed space requirements before tendering. Subsequent changes or disagreement over the interpretation of specifications can lead to problems in meeting tenants' requirements or real estate industry concerns.

17.70 According to DPW officials, the Department uses public tenders or asks for expressions of interest when it is practical. Also, DPW has recently encouraged owners to register their buildings in regional inventory systems; these "representative lists" are used to invite tenders for some small and medium-size office space requirements. Although only 15 percent of leases were considered "competitive" in 1990, they represented 49 percent of the dollar value of lease commitments made (full term of leases) and 28 percent of space leased during the year.

17.71 Since 1985, DPW has introduced various "transparency" features in the bidding process for leased space. Bids are opened publicly, and bidders have access to the offers received by DPW; key elements of the competing bids are available to the public.

17.72 Sometimes the lowest bid resulting from a public tender may be unacceptable to the tenant department; this could result in cancellation of the tender. DPW's policy is to exclude the tenant department from the selection and evaluation process on the grounds that this ensures a competitive process. When a large public tender is cancelled by DPW, as was the case in one of our sample items, everyone loses -- the tenant department, the real estate industry and DPW -- because of the time and cost required to conduct and participate in the tender process. Specifications for accommodation are much different from specifications for a standard purchased good. Usually the space already exists, and a compromise must be reached between tenant requirements and what has been offered in the bids.

17.73 Private sector firms and some public works departments in the provinces and other countries are able to acquire premises that more closely match tenant program needs by following a two-stage process. In the first stage, developers submit brief proposals to meet the accommodation request. The proposals are evaluated and narrowed down to four or five properties that are reasonable in terms of cost and acceptable to the tenant department. In the second stage, the four or five finalists submit detailed proposals, which are again evaluated. Because location and quality have already been taken into account, the firm or department then negotiates the best contract with the finalists. Price is the critical factor in these final negotiations. This alternative approach emphasizes flexibility and the importance of meeting the tenant's requirements in a cost-effective way.

17.74 DPW, on occasion, uses a variation of the two-stage process. The first stage is the same as the one previously described, that is, proposals are requested from interested parties. However, in the second stage, qualified developers or landlords are invited to respond to a formal tender call. The lowest bid is usually chosen.

17.75 The principal implication of encouraging greater use of this two-stage approach is that it would likely require fundamental changes in the government's principles and practices of acquiring leased accommodation.

Meeting Small Space Requirements

17.76 At June 1991, 83 percent of DPW's leases (representing 23 percent of leased space) were for premises of 1,000 square metres or less. Consequently, the accommodation leasing workload includes many small leasing projects.

17.77 Current DPW leasing procedures (outlined in the Realty Services Leasing Manual) are designed for the acquisition of medium to large quantities of space. Although the Realty Services Leasing Manual does have a contingency plan for urgent requirements referred to as "Fast-Track Approaches", DPW uses the same onerous procedures regardless of the size of space required. In our opinion, these procedures are too complex and involve too many players for most of the many small accommodation leasing projects. (See examples in our leasing sample under Delivery times, 17.63 to 17.65.)

17.78 We believe DPW needs to simplify its leasing process and related documentation for obtaining small blocks of space. DPW has introduced a short version of its lease tender document; however, according to departmental officials, implementation has been slow.

Market Surveys and Rental Costs

17.79 DPW formulated its market analysis policy as a result of the Standing Committee on Public Accounts' 1985 recommendation that DPW "develop market analyses for major leasing transactions comparable to an acceptable industry standard".

17.80 Market surveys are conducted by either DPW's own evaluators or private sector firms to provide information on current market conditions for determining the probable costs of leased accommodation. Market surveys are generally required for all major urban centres where there is a continuing need for office accommodation.

DPW needs to simplify its leasing process and related documentation for obtaining small blocks of space.

17.81 DPW usually conducts these surveys prior to the effective date of the lease. The estimated market rental ranges shown in these reports are generally limited primarily to asking rents, which are obtained, for example, through telephone surveys of eligible office building owners.

17.82 We contracted with real estate appraisers to compare the rental costs of our sample of DPW leases with costs to private sector renters in similar spaces. These appraisals were performed after the lease agreements had been concluded. The appraisers researched existing lease agreements for similar time periods in the same or in comparable buildings. They considered inducements such as free rent, fit-up allowances, free parking and other incentives. In short, the objective was to make realistic comparisons between rents paid by the government and market rentals based on actual lease agreements.

17.83 The market surveys used by DPW and the detailed appraisals we prepared have different objectives. A market survey provides broad market trends, usually based on asking rents; a detailed appraisal provides an assessment of the market rents paid for specific premises based on actual lease agreements for comparable and competitive buildings.

17.84 In our opinion, DPW needs, on a selective basis, to undertake the more detailed appraisals for high-risk lease acquisitions and renewals; "high-risk" would include, for example, large or special purpose space acquisitions. The appraisals should include evidence on actual lease agreements for comparable and competitive buildings.

17.85 Given the government's excellent credit rating, we expected that rents paid by DPW would compare favourably with independently determined market rentals. We found that, for leases in the sample, the rents paid by the government were generally reasonable in comparison with market rentals. The results of the lease comparisons were reported to the Department.

17.86 We noted that, for three leases in our sample, rents were significantly higher than the market rental range. Departmental officials explained that higher rents were generally the result of the following factors that weakened the government's bargaining position:

- poorly defined specifications and last-minute changes in space requirements by the tenant departments; disputes between tenant departments and DPW over proposed accommodation solutions;
- being in a "captive tenant" position when negotiating a lease renewal with an incumbent landlord, a position that can stem from factors such as extensive past fit-up investments or insufficient lead time to seek alternative accommodation;
- continued renewal of short-term leases arranged in anticipation of moving into proposed Crown-construction projects that do not materialize;
- possible extra costs charged by landlords for having to deal with a prolonged government approval process, complex leasing procedures and the use of lease forms that generally are longer and more complicated than the standard industry lease; and
- intangible factors, such as landlords' perceptions of difficulties associated with government tenants' activities.

17.87 These factors suggest that there are opportunities for the Crown to establish better bargaining positions and reduce rental costs for some leases. We were not able to identify a simple remedy for saving money on rentals. Rather, the savings will likely come over the long term from a concerted effort by DPW and tenant departments to carefully plan office accommodation projects from the start and deal appropriately with the factors noted above.

Conclusion

17.88 In our opinion, without resolution of long-standing fundamental accommodation issues, operational reforms introduced by DPW will be built on quicksand. These issues are the service and control roles of DPW, the question of whether departments should pay rent for accommodation, and long-term accommodation planning and investment strategies.

17.89 DPW's leasing practices are slow and cumbersome, its leasing documents are overly detailed and complex. Space acquisition is often delayed, and competition can be reduced, especially in tight market conditions when lessors can rent their buildings much more readily to the private sector in much less time and with less demanding lease requirements. As a result, DPW may end up paying higher prices to obtain leased space.

17.90 Many of the reforms introduced by the government since 1985 have been designed to meet the need for competitiveness and transparency in government leasing practices. However, abiding by the existing rules and DPW's internal procedures can be costly and time-consuming (for the real estate industry, tenant departments and DPW) and may not always yield an optimal result for the government. We are not recommending the wholesale adoption of direct negotiations or a two-stage tendering process for all lease transactions. On the contrary, we recognize and support the need for competitiveness and transparency in government leasing practices, especially in high-risk situations. To reform its leasing process, DPW will have to be innovative in adopting what is useful and appropriate from established commercial leasing practices.

17.91 DPW has introduced initiatives such as its Task Force on the Leasing Process to try to improve the delivery of leased office space to tenant departments. The Department recognizes, and our work confirms, that more can and should be done to make DPW more responsive to the accommodation requirements of its tenant departments and to streamline its leasing operations.

> *DPW will have to be innovative in adopting what is useful and appropriate from established commercial leasing practices.*

17.92 Given the government's objective to simplify administrative practices through initiatives such as PS 2000, this is an opportune time for DPW to address persistent, systemic problems in office accommodation planning and leasing.

17.93 For more than two decades, DPW has had to react to wide-ranging and usually critical external studies dealing with the provision of government accommodation. Indeed, the Department has evolved into a more commercial organization, in part, through a series of responses to such external pressures. Our examination led us to the conclusion that DPW needs to take a more proactive position in mapping its future in the accommodation of tenant departments.

17.94 **We recommend that DPW take action to improve the planning and acquisition of leased accommodation. Among other things, the Department should address the following elements:**

- **the need to clarify and communicate DPW's service and control roles for the benefit of tenant departments;**
- **the need to complete the development of appropriate accommodation standards based on tenants' functional requirements within a reasonable time frame;**
- **the need to seek government resolution of the question of charging tenant departments for office accommodation;**
- **the need to obtain, with the co-operation of tenant departments, appropriate information about current and future requirements for office space;**
- **the need to prepare a long-term accommodation plan and investment strategies including, in particular, realistic property options (Crown-owned, lease-purchase, short- and long-term leases) for housing tenant departments;**
- **the need to develop leasing strategies for major metropolitan areas; and**
- **the need to improve the planning and acquisition of leased office space, including such matters as defining tenant departments' office space requirements, delivery times, tendering, meeting small space requirements, and market surveys and rental costs.**

Department's response: *The Department agrees with the above recommendations and has taken a number of steps, since the comprehensive audit of 1984, to introduce changes designed to achieve the goals of both the present and earlier audits. The issues brought out by this current audit are being addressed through various initiatives contained in departmental work plans.*

The Department is planning to introduce a number of changes to improve client relations. The Department is developing an Accommodation Control Strategy and negotiating Master Occupancy Instruments (five will be completed in 1991-92). These instruments will be used to clarify the roles and responsibilities and to formalize the accountabilities of both DPW and tenants.

For some time now, DPW has been working in close co-operation with the Bureau of Real Property Management in the Treasury Board Secretariat to update government accommodation standards. The Department is now preparing a Treasury Board submission requesting a transfer of complete authority for Chapter 120 to DPW including revisions to *current salary-based accommodation standards.*

We would strongly suggest that the issue of charging for accommodation has been clearly decided by both the government and DPW for the time being. It may be tempting to re-consider this decision on the sole basis of the merits of revenue dependency, but to be fair, the arguments against the proposal need to be brought forward as well, to balance these discussions.

It is quite likely that we will be revisiting this issue with the Treasury Board Secretariat in the course of continuing efforts to establish a stable basis for the financing of the real property program. Our current concern is that the major efforts under way regarding Chapter 120 could be deflected by a reconcentration of energy on revenue dependency at this time.

A two-way communication between DPW and its clients is essential to identify tenants' requirements early in the process. This process is paramount to the successful delivery of required space. Several initiatives are currently under way to help identify user requirements in sufficient detail early in the space procurement process. These initiatives include the revision of the lease tender documentation and the revision of the Standards for Leased Accommodation. The review of the lease tender document is being pursued in collaboration with the Department of Justice; the revised documentation will also ensure that global environmental issues and accessibility are integrated into the leasing process.

DPW has recently undertaken numerous initiatives to compile valid information on the long-term space requirements and strategic plans of tenant departments. The Accommodation Branch is responsible for the development of a National Investment Strategy to illustrate that real estate is an investment that can earn dividends and to develop a business plan to demonstrate the need for scarce government resources. The strategy includes acquisition by leasing for the major metropolitan areas; it will address external and internal factors affecting the Department's ability to deliver its services and identify off-budget solutions for capital requirements.

The department-wide implementation of the short-form lease tender document will be accelerated by Real Estate Services to improve delivery time for leasing small space.

Chapter 18

Department of Supply and Services
Management of the Government Procurement Service

Department of Supply and Services

Management of the Government Procurement Service

Main Points

18.1 As the procurement arm of government, the Department of Supply and Services (DSS) procures goods and services worth approximately $8 billion annually for the government of Canada. It also participates in the administration of major Crown projects currently valued at $23 billion. All DSS procurement services are now provided on a fee-for-service basis and must take into consideration government national objectives such as competition, fairness and accessibility, and industrial and regional development. The Department's stated mission is to deliver valued services that enable its client departments to achieve their objectives (paragraphs 18.6 to 18.11).

18.2 The government strategy gives priority to competition, fairness and accessibility as the cornerstones of government procurement policy. Of the approximately $8 billion worth of goods and services procured annually through DSS, some 60 percent is procured on a competitive basis. Government policy requires that client departments' needs be clearly defined in a generic and unbiased way to ensure accessibility and fairness to all qualified suppliers. In addition, DSS is required to advise and encourage client departments to amend non-competitive procurement requests to permit competition, where an alternative product or source of supply exists. DSS' dual role of providing prompt and adequate service to client departments while ensuring compliance with government procurement policies may affect its challenge of client departments' requests for non-competitive procurement (18.15 to 18.49).

18.3 When DSS cannot establish a contract price by competition, key price components such as suppliers' cost and profit must be estimated and negotiated. DSS awards $3 billion worth of non-competitive contracts annually. It is therefore important that DSS procurement officers be given assistance in deciding when detailed price substantiation should be carried out, the extent of such substantiation and the amount of documentation required. They should also be provided with sufficient technological tools and advanced methods to enable them to substantiate price proposals effectively. The current profit policy should be revised to ensure that the profit calculated is related to the level of risk assumed by the suppliers. The price certification currently provided by suppliers in support of non-competitive, non-commercial price proposals should also include a certificate of accuracy, currency and completeness of the price support information as of the time the non-competitive contract is awarded (18.50 to 18.77).

18.4 Generally, DSS has procedures in place to evaluate the technical and financial capabilities of suppliers. However, there is no corporate system to record and report on supplier and product past performance (18.90 to 18.99).

Main Points (cont'd)

18.5 DSS, one of the largest purchasers of goods and services in Canada, is undergoing significant changes. At the same time, there are continuing changes in the complexity and technical aspects of the products procured. The training and skills of procurement officers are the key to their effectiveness in providing centralized procurement services to the Government of Canada. Therefore, DSS training programs should be comprehensive and up to date, to provide procurement officers with the appropriate skills to discharge their responsibilities (18.110 to 18.119).

Table of Contents

Paragraph

General Background 18.6

The Environment 18.9

Audit Objective and Scope 18.12

Extent of Competition in Procurement 18.15

- **Audit Objective and Scope** 18.20
- **Observations and Recommendation** 18.22
  - Because the level of non-competitive contracting is significant, overall analysis of the underlying reasons is needed (18.22)
  - DSS' dual role of providing prompt and adequate service to client departments while, at the same time, ensuring compliance with government procurement policies may affect its challenge of departmental requests for non-competitive procurement (18.33)
  - Case 1. Savings Resulting from Competition 18.41
  - Case 2. Urgent Requirements to Upgrade Computer Equipment 18.44
  - Case 3. Decision of the Procurement Review Board of Canada 18.46

Pricing Non-competitive Contracts 18.50

- **Audit Objective and Scope** 18.54
- **Observations and Recommendations** 18.56
  - Price proposal substantiation is generally better for higher dollar value contracts than for lower ones (18.56)
  - Technology and advanced methods are needed to ensure that pricing of spare parts procurement is fair (18.69)

Government Post-contract Financial Audit 18.78

- **Audit Objective and Scope** 18.85
- **Observation** 18.86
  - DSS is currently taking steps to address our 1988 Report observations and those of the Office of the Comptroller General's 1989 review on its post-contract financial audit practices (18.86)

Supplier Evaluation 18.90

- **Audit Objective and Scope** 18.94
- **Observations and Recommendation** 18.96
  - Generally, DSS has procedures in place to evaluate the technical and financial capabilities of suppliers (18.96)
  - There is no corporate system to record and report on supplier and product past performance (18.97)

Table of Contents (cont'd)

Paragraph

Ship Design Contracts 18.100
Case 4. Difficulties in Ship Design 18.102

Quality Assurance 18.106

Skills Development and Training 18.110

Audit Objective and Scope 18.113
Observations and Recommendation 18.115
There are insufficient mechanisms to ensure that training courses offered are up to date and meet their objectives (18.115)
There is insufficient training to prepare procurement officers for work on major Crown projects (18.117)

Exhibit

18.1 Justification Given for Non-competitive Contracts

Department of Supply and Services

Management of the Government Procurement Service

General Background

18.6 The Department of Supply and Services (DSS) was created in 1969 as part of a general administrative reorganization of government in response to concerns about efficiency and economy in government operations. It operates within a statutory framework established by the Department of Supply and Services Act, the Financial Administration Act, the Defence Production Act, the Surplus Crown Assets Act and numerous orders-in-council and Treasury Board policies and guidelines. In addition, memoranda of understanding govern its relationships with several other departments and agencies.

18.7 DSS is a common service organization internal to government and is responsible for two major government-wide functions: banking and accounting, and centralized procurement. Centralized procurement services include procurement planning, market research, selection of methods of supply, contract negotiation, issuance and administration of procurement contracts, including those for major Crown projects, and other procurement services. DSS summarizes its mission as follows: "to deliver valued services that enable our clients to achieve their objectives".

18.8 As the procurement arm of government, DSS supplies defence and civilian requirements for goods and certain services, taking into consideration national objectives such as promoting competition, fairness and accessibility, and industrial and regional development. DSS procures goods and services for the Government of Canada worth approximately $8 billion annually and participates in the administration of major Crown projects valued at $23 billion. All DSS procurement services are currently provided on a fee-for-service basis.

The Environment

18.9 DSS operates in an environment in which the basic assumptions and operating methods of the past are being challenged and examined. The liberalization of global trade, particularly the Canada-U.S. Free Trade Agreement, the anticipated expansion in the General Agreement on Tariffs and Trade, and the rapid advances in product technology and automation all require major adjustments to its procurement practices.

> *DSS operates in an environment in which the basic assumptions and operating methods of the past are being challenged and examined.*

18.10 Important government initiatives, such as Increased Ministerial Authority and Accountability and Public Service 2000, are proposing increased delegation of procurement authority to client departments. This would challenge the central procurement role of DSS. In addition, the Procurement Review Board of Canada was established by the Canada-U.S. Free Trade Agreement to hear supplier complaints regarding procurement falling under the Free Trade Agreement. Through its Procurement Service Line Reviews, including Acquisition 2000, DSS is re-examining its strategic directions and embarking on an ambitious plan to automate its procurement practices in response to this changing environment.

18.11 DSS is currently negotiating with Treasury Board and client departments for the virtual elimination of revenue dependency as a method of financing the central procurement service of the Government of Canada.

Audit Objective and Scope

18.12 In 1989, this Office surveyed client departments and found that, although they were generally satisfied with DSS procurement services, they expressed concerns over the timeliness of contract awards, delivery, and the price and quality of goods and services procured. Factors which contributed to client concerns were related to inadequate monitoring of contract performance, and restrictions on sources of supply imposed by government national objectives requirements. The majority of client department officials questioned the validity of revenue dependency and the related fees charged for DSS services and requested more decentralization of procurement authority.

18.13 The objective of this year's audit was to review and assess DSS' central procurement practices and management controls, with particular focus on issues and concerns identified in our 1989 opinion survey.

18.14 In this chapter, we report on our assessment of DSS' management of the procurement service for goods. In Chapter 19 we discuss issues related to DSS procurement and industrial development.

Extent of Competition in Procurement

18.15 The government's procurement strategy gives priority to competition, fairness and accessibility in the procurement service. Of the approximately $8 billion worth of goods and services bought through DSS annually in recent years, some 60 percent is purchased on a competitive basis. This leaves more than $3 billion worth of goods and services which are procured annually on a non-competitive basis. Research studies in other jurisdictions have shown that the lack of competitive pressures results in higher prices paid compared with procurement that is subject to open competition.

The government's procurement strategy gives priority to competition, fairness and accessibility in the procurement service.

18.16 The Government Contracting Regulations contain four exceptions to the requirement to solicit bids: in cases of pressing emergency, which is an actual or imminent life-threatening situation requiring immediate action; for amounts less than $30,000; in cases where there is only one capable supplier; and cases where it is not in the public interest to solicit bids. Treasury Board policy provides guidance in interpreting these exceptions. Low cost procurements are expected to be competed, where cost effective. Technical or legal requirements would warrant the use of the only capable supplier exemption, not simply the fact that management knows of only one potential source. Security considerations or the need to alleviate some significant socio-economic disparities in Canada are described as cases where competition would not be in the public interest.

18.17 The General Agreement on Tariffs and Trade and the Free Trade Agreement have opened up the procurement of some goods to international competition. In general, there is to be worldwide competition for goods procurement over $210,000, and competition within Canada and the United States for goods requirements over $31,000. Exemptions to these agreements, which simply state that open competition need not apply, include procurement related to national defence and security and the requirements of the departments of Transport, Fisheries and Oceans, and Communications. These account for over 50 percent of government procurement. Service contracts are also exempt from the provisions of the agreements.

18.18 These agreements permit non-competitive procurement in a number of specific circumstances, such as when there are no acceptable tenders in a competitive process, when there are legal restrictions (like patents or proprietary rights) and no reasonable substitute exists, or because of extreme urgency. Additional deliveries by the original supplier for interchangeability reasons and the development of a prototype product are other specific circumstances. For requirements not governed by the international agreements, DSS applies procurement policies which give preference to domestic suppliers. Domestic preference policies are discussed in Chapter 19.

18.19 Government contracting policy encourages the competitive process by requiring that client needs be clearly defined in a generic and unbiased way to ensure accessibility and fairness to all qualified suppliers. DSS procurement officers are required to advise and encourage client departments to amend non-competitive procurement requests to permit competition, where an alternative product or source exists. Justification for deviation from policies must be fully documented in the contract file. In addition, non-competitive contracts are scrutinized by more levels of authority than competitive ones.

Audit Objective and Scope

18.20 In reviewing the Department's practices for controlling the extent of and justification for non-competitive procurement, we examined some non-competitive contracts for goods issued between 1987 and 1990 in the communications equipment, electronic data processing and spare part commodity groups. The total value of contracts for these commodities for the three years was approximately $2.3 billion, from which a random sample was selected for examination. The total value of the sample of contracts examined was $267 million. We also reviewed all the published decisions of the Procurement Review Board of Canada.

18.21 We reviewed procedures for procurement planning which determine whether the procurement should be competitive or non-competitive, the justification for non-competitive procurement was adequately documented, different methods of supply were assessed and the chosen method did not unduly restrict competition.

Observations and Recommendation

Because the level of non-competitive contracting is significant, overall analysis of the underlying reasons is needed

18.22 Government policy requires that contracting be competitive for customer department requirements, except for certain specific situations. Forty percent of all contracts for goods and services procured through DSS for its customer departments, amounting to approximately $3 billion annually, were awarded on a non-competitive basis. We recognize that a certain portion of these contracts cannot be competed and that non-competitive contracting cannot be avoided in all situations. Depending on the type of commodity, research studies in other jurisdictions have indicated that significant price savings, in the range of 30 percent, could be achieved if previously non-competitive contract requirements were competed where feasible.

We recognize that a certain portion of these contracts cannot be competed and that non-competitive contracting cannot be avoided in all situations.

18.23 DSS systems capture basic contract information, including the contract award method (competitive or non-competitive), which allows the tabulation and reporting of statistics on the number of competitive and non-competitive procurements. However, these systems do not accurately capture the reasons for awarding non-competitive contracts, and the reliability of the internal information is questionable.

18.24 Procurement officers advised us that they examine the justification for non-competitive procurement on a case-by-case basis to ensure that it adheres to government policy. While such a review is necessary, an overall analysis of the extent of, and reasons for, non-competitive procurement would allow DSS to identify trends and problem areas where action could be taken to improve competition.

18.25 In the absence of reliable information within DSS at the time of our audit, we analyzed the justification given for non-competitive procurement in the sample of non-competitive contracts we examined. Some of the reasons given for not competing these contracts are discussed in the following paragraphs. The results are also summarized in Exhibit 18.1.

Exhibit 18.1

JUSTIFICATION GIVEN FOR NON-COMPETITIVE CONTRACTS

Proprietary rights or agreement	45%
Only known or capable supplier	32%
Upgrades or follow-on purchases	23%
Compatibility	20%
Urgent operational requirements	14%
Only response to a competition	9%
National objectives	8%

Note: *The percentages add to more than 100% since more than one reason can be given.*

This analysis is derived from the random sample of contracts we examined.

18.26 **Proprietary rights** were quoted in 45 percent of the contracts examined. Where major systems are built to client department specifications, additional systems or components are often bought from the same supplier because of some proprietary rights such as patents, licences or hardware/software rights. We discussed with the Department the possibility of obtaining the rights to the design to permit future requirements to be tendered competitively. DSS officials indicated that they had found that the costs of doing so were prohibitive. Nevertheless, opportunities are still being sought to acquire design rights, particularly with respect to non-commercial goods and requirements under major Crown projects.

18.27 **The only known or capable supplier** was the justification used in 32 percent of the contracts examined. Prior to DSS' implementation of the Open Bidding Opportunities Policy initiative in late 1989, its search for alternative sources of supply relied largely on the information in the DSS source listings, the procurement officer's knowledge of the industry, information obtained from client departments and informal contact with procurement officers of other jurisdictions. Case 1 illustrates this practice. In April 1991, DSS also implemented the Item Information Service, a computerized data base which provides information on technically capable sources and recent procurement history, principally for spare parts. The introduction of these two initiatives for identifying other potential sources of supply should, in the future, increase the extent of competition by attracting previously unknown suppliers.

18.28 **Upgrades and follow-on purchases** accounted for 23 percent of the contracts examined. While the original purchase may have been won competitively, subsequent procurements are often awarded on a non-competitive basis as and when required. There is no formal requirement for client departments to provide long-range plans to DSS to help it develop the best long-term procurement option. The Office Automation, Services and Information Systems Directorate at DSS is currently experimenting with a long-range procurement approach for mainframe computers. The client department's computer needs over a five-year period are identified, and its requirements sent out for competitive tender. This results in locked-in competitive percentage discounts for future optional upgrades. We support this practice and encourage expanding its application to other directorates of DSS where feasible.

18.29 **Compatibility** was the justification used in 20 percent of the contracts examined. Compatibility with existing equipment could, in some cases where cost justified, be incorporated into a generic, unbiased description of the requirement in a way that could permit competition.

18.30 **Operational urgency** was quoted in 14 percent of the contracts examined. Case 2 is an illustration of urgent requirements from client departments. DSS must promptly address urgent requests for non-competitive procurement. However, such requests may impede the ability of DSS to adequately search for alternative sources or methods of supply.

18.31 **National objectives** were quoted in 8 percent of the contracts examined. Issues related to procurement and national objectives are discussed in Chapter 19.

18.32 In June 1991, in response to a ministerial request and subsequent to our audit, DSS completed a study, which had begun in March 1991, of the reasons for non-competitive procurement based on a sample of contracts from most commodity groups. While the reasons identified in the DSS study were the same as ours, the percentages differed because the DSS analysis covered most commodity groups while our analysis focussed on certain commodities. The next step would be for DSS to analyze the results of the study to identify areas where action could be taken to improve competition.

DSS' dual role of providing prompt and adequate service to client departments while, at the same time, ensuring compliance with government procurement policies may affect its challenge of departmental requests for non-competitive procurement

18.33 DSS policy requires that procurement officers examine all non-competitive procurement requisitions from client departments to determine whether this method is justified. It also requires that the officers advise and encourage client departments to amend their requests to permit competition. At the same time, DSS officers are expected to provide prompt and adequate service to client departments. This dual role may make it difficult for DSS officers to adequately challenge the requests for non-competitive procurement.

18.34 Although, in determining the specifications for any procurement, client departments must comply with, and are jointly responsible for, the application of Treasury Board policy on competition, in practice DSS alone is generally seen to be accountable for allowing non-competitive contracts. The overlapping roles of DSS and its client departments in this area may create tension in their relationship and make it difficult to fix responsibility and determine accountability for some of the non-competitive procurement decisions. There is a need for guidelines to ensure that the respective roles of DSS and client departments are clear and that the responsibility and accountability for ensuring competition in government contracting are shared.

18.35 **Procurement Review Board of Canada.** The Procurement Review Board of Canada was established in 1989 to review suppliers' complaints under the Canada-U.S. Free Trade Agreement. The current mandate of the Board covers only contracts between $31,000 and $210,000 that are subject to the Free Trade Agreement. Of the 11 decisions published by the Board from its inception to early 1991, 4 made reference to justifications for non-competitive procurement. In three of these decisions the Board concluded that DSS had not adequately challenged client departments' justification for non-competitive procurement. In its fourth decision, the Board noted that DSS had challenged the non-competitive request, insisted on competition, and obtained from the client department a generic description of the requirement, which included a need for compatibility with existing equipment. Case 3 is an example of one of these decisions.

18.36 As a result of one of its decisions on the adequacy of DSS' challenge of a non-competitive request, the Board recommended that "DSS should review the extent to which all levels of contracting officers understand their responsibilities with respect to reviewing and accepting justification for non-competitive tendering". DSS responded to this recommendation by adding relevant sections to training courses.

DSS initiated the Open Bidding Opportunities Policy in November 1989 to further the objectives of competition, fairness and accessibility.

18.37 **DSS initiative.** DSS initiated the Open Bidding Opportunities Policy in November 1989 to further the objectives of competition, fairness and accessibility. The policy requires the advertising of government procurement requirements in the Government Business Opportunities publication and on its electronic bulletin board, thus giving businesses across Canada better access to government procurement opportunities.

18.38 In 1990 the policy's coverage was expanded to include the majority of goods contracts valued over $25,000. Service contracts have been included since April 1991.

18.39 Starting in July 1991, DSS plans to advertise, two weeks prior to contract award, all proposed non-competitive procurement covered by the General Agreement on Tariffs and Trade and the Free Trade Agreement. If this approach is successful in identifying other sources of supply, DSS proposes to extend it to all proposed non-competitive procurement over $25,000 starting April 1992.

18.40 DSS expects the Open Bidding Opportunities Policy to result in a more visible procurement service and one that is open to challenge. However, this policy only applies to procurement carried out by DSS on behalf of the government. It does not cover procurement carried out independently by other government departments or agencies.

Case 1. Savings Resulting from Competition

18.41 In response to a client department's requisition for 12 items of aircraft spares in early 1987, the DSS procurement officer issued a Request for Proposal on a non-competitive basis to a supplier. The supplier, described in the procurement plan as having the technical knowledge, technical data and the only available tooling to manufacture the items, responded with a proposal totalling approximately $469,000.

18.42 The DSS procurement officer made inquiries concerning recent prices paid by the United States Air Force and concluded that the prices quoted for seven of the parts were high. A non-competitive contract was awarded for the five remaining items, which the procurement officer considered to be fairly priced. A competitive tender was issued by DSS for the seven remaining items and bids were received from several suppliers, including the original supplier which again quoted its earlier prices.

18.43 Contracts were awarded to other suppliers for the seven tendered items. The total value of all the contracts awarded for the 12 items was for approximately $219,000. In this case, the efforts of the DSS procurement officer to compete the seven items saved the taxpayer approximately $250,000 or 50 percent of the value of the procurement.

Case 2. Urgent Requirements to Upgrade Computer Equipment

18.44 In February 1988, a client department requested an upgrade of its existing computer mainframe so that a new system could be installed by 31 March 1988. Because of the urgency of the request, the contract for approximately $3.5 million was awarded non-competitively to the original manufacturer. In the opinion of the client department and DSS, this supplier was the only one which could meet the requirement cost effectively.

The competitive process resulted in significant savings in the purchase of spare parts for this aircraft (see Case 1, paragraphs 18.41 to 18.43).

18.45 In August 1988, the client department requested a further upgrade of the same computer mainframe, asking for delivery of the required equipment by 1 November 1988, to implement another urgently needed system. A discount from list price was obtained. DSS processed the non-competitive request while obtaining the client department's agreement to the competitive tendering of any further requirements, including those projected over a five-year period. DSS informed us later that there was competition for subsequent requirements and that large discounts from list prices were obtained. Subsequent to our audit, the supplier indicated that, in his opinion, the difference in the discounts offered was due to factors of urgency, time and competition. We did not verify this opinion.

Case 3. Decision of the Procurement Review Board of Canada

18.46 In November 1990, the Procurement Review Board of Canada received a complaint about a non-competitive contract for $132,000 awarded by DSS in October 1990 for environmental growth chambers to supplement existing chambers used by a client department. The requisition gave compatibility with the existing computer equipment as a key reason for the non-competitive procurement.

18.47 The Board found no evidence that competitive solicitation had been considered. Also, DSS had not questioned the request, and agreed with the client department's justification. The Board noted that, in another case involving the proposed procurement of similar products for another department, DSS had challenged the non-competitive request, insisted on competition and obtained from the client department a generic description of the requirement.

18.48 In its response to the Board, the contractor said that its competitors' products would not be able to connect to the computer equipment without extensive development work. However, the Board noted that this was something which any competitor might have been willing to do, and which the client department might not have had to pay for or even wait long for. It stated that the competition policy should not be thwarted by internal government judgment about what the private sector can or cannot do. The Board found in favour of the plaintiff.

18.49 DSS should establish and communicate guidelines to clarify roles and responsibilities and to remind client departments that accountability for

ensuring maximum competition in government contracting is shared.

Department's response: *DSS recognizes that competition is one of the cornerstones of the government procurement policy and is attempting to achieve the objectives of competition, fairness and accessibility in support of the objectives of its client departments. The Department has put in place a number of initiatives designed to foster competition such as open bidding and the Advanced Contract Award Notices advertised through the Procurement Opportunities Board and the Government Business Opportunities publication.*

The DSS Customer Manual clearly indicates to clients that requirements should be defined in terms that allow the use of the competitive process and result in the procurement of goods or services that will provide the best value in meeting the needs. The division of responsibilities between DSS and certain client departments are delineated in Memoranda of Understanding. DSS will ensure that any Memoranda of Understanding with client departments specify roles for ensuring maximum competition. Where no such Memoranda exist, DSS will ensure that roles and responsibilities are appropriately communicated through other sources.

Pricing Non-competitive Contracts

18.50 When DSS is not able to establish a contract price by competition, the price is estimated and negotiated. The objective is to duplicate a fair market price, while establishing a realistic division of responsibilities and risks between the supplier and the government.

18.51 In its Contract Costing Memorandum, DSS sets out policies on allowable costs. Broadly, these include estimated material, labour and overhead costs incurred in performing the contract. In the case of agents, material costs would include the cost of imported goods. For determining profits, the Department has a number of guidelines, depending on the dollar value of the contract and whether the supplier is an agent or a manufacturer.

18.52 DSS policies also require that, in non-competitive procurements, the contractor sign a price certification and the contract contain a discretionary post-award audit clause. The form of the certification varies, depending on whether the goods being acquired are commercial or non-commercial products. For commercial products the contractor certifies that the price quoted is not in excess of the lowest price charged any other customer. For non-commercial products the contractor certifies that the price has been determined in accordance with the Department's cost and profit policies. Discretionary post-award audit clauses afford DSS the right, in the case of commercial goods and after the completion of the procurement, to conduct an audit to satisfy itself that the price it has paid is as low as the lowest price charged any other customer. In the case of non-commercial products DSS is entitled, after completion of the procurement, to conduct an audit of profits paid to the contractor to ensure that these were reasonable.

The objective is to duplicate a fair market price, while establishing a realistic division of responsibilities and risks between the supplier and the government.

18.53 DSS annually awards $3 billion worth of non-competitive contracts. It is therefore important that procurement officers have the necessary skills and tools to ensure, prior to awarding the contracts, that the prices proposed by the suppliers are fair and reasonable.

Audit Objective and Scope

18.54 Our objective was to assess the adequacy of DSS practices for substantiating price proposals provided by suppliers in non-competitive procurements prior to the awarding of the contract. We focussed on the adequacy of procedures used to ensure that the costs and profits included in the price proposals were fair and reasonable.

18.55 We reviewed a random sample of non-competitive contracts issued during the past three years valued at $267 million. Our sample was selected from a contract population valued at $2.3 billion, covering spare parts, communications and electronic data processing equipment. The sample items selected were firm price contracts for the acquisition of both commercial and non-commercial goods.

Observations and Recommendations

Price proposal substantiation is generally better for higher dollar value contracts than for lower ones

18.56 Responsibility for price proposal substantiation rests with individual procurement officers within DSS. DSS has established a number of policies and procedures to provide guidance in substantiating and negotiating the two elements on which the price is based — estimated costs and profit.

18.57 We found that the level of price substantiation varies greatly, depending on the dollar amount of the contract and the judgment, skills and ability of individual procurement officers. In general, we noted inconsistencies in both the substantiation of the proposed price and the documentation of the extent of such substantiation within DSS files. Higher dollar value proposals, which relate to contracts in excess of $2 million, are generally reviewed more thoroughly than relatively lower dollar value proposals.

18.58 We agree that the costs of substantiating low dollar value proposals must be weighed against the value of obtaining assurance that the price is fair and reasonable. However, we noted that procurement officers are provided with few guidelines as to when detailed price substantiation should be completed and the extent of such substantiation.

18.59 Generally, in lower dollar value contracts — that is, contracts with a value of less than $2 million — we made the following observations.

18.60 **Price support information is insufficient.** For the acquisition of non-commercial goods, contract files generally contain a summary of the supplier's estimated costs with totals for materials, labour, overheads and a profit calculation prepared by the supplier. This high level summary is generally insufficient to allow proper analysis prior to substantiation and negotiation. While procurement officers may have seen information beyond the summaries provided by suppliers in the price proposals that we found in the files, there was generally no evidence of it. As well, price proposals for commercial goods contain a certification by the supplier that the price quoted is not in excess of the lowest price charged any other customer. We noted that, while these contracts contain discretionary post-award audit clauses, no such audits of supplier certificates were conducted by DSS until the fall of 1990, when the Department introduced new audit coverage procedures.

18.61 Our audit noted that, while the Department has policies which govern the determination of allowable costs and profits, there are few guidelines that set out the level of pricing information to be provided by suppliers in responding to a non-competitive request for proposal. More detailed information in support of price proposals is necessary if procurement officers are to provide a reasonable challenge during price substantiation and if they are to negotiate with the same level of information as suppliers with respect to the proposed prices.

18.62 We noted that, while suppliers must certify adherence to departmental cost and profit policies or certify the offering of their lowest price, there is no requirement that information submitted by suppliers be certified as to its currency, completeness and accuracy at the time of the contract award. This certification is necessary to impose a responsibility on the supplier to provide the information needed for negotiation of non-competitive contracts on an equal basis by the government.

18.63 As part of the contract approval process, procurement officers express an opinion that the price being proposed is fair and reasonable. Such opinions also generally contain a statement that they believe costs proposed by suppliers for materials and labour are commensurate with the work to be performed under the contract. Our review indicated that generally there was insufficient documentation of the substantiation work undertaken by the procurement officers in the procurement files to support their judgments.

18.64 While procurement officers may have substantiated price support information, we noted that there was generally little documentation in the contract files to show that detailed substantiation of such things as estimated labour or material usage, foreign content and material quotations had been completed. Procurement officers consistently documented such things as the details of telephone conversations but not key components of price substantiation such as the basis for their judgment of the reasonableness of estimated labour hours or material use in the price proposals. Such documentation is important to establish the accountability of the procurement officer for the judgments made during price proposal substantiation and negotiation. Such documentation also provides background knowledge on products and pricing for future procurements. Our audit also noted that in several instances there was no evidence in the contract files that foreign suppliers who had been requested to provide price support information had done so before the contracts were awarded.

18.65 The DSS contract approval process is based on the dollar value of the contract and the approval authority level of the procurement officer. Approval authority is delegated to procurement officers based on their positions within the organization. In general, the higher the dollar value of the contract the more senior will be the position of the procurement officer responsible for the contract and the more senior will be the managerial review. Managerial review is an important internal control mechanism. However, the lack of documentation supporting price proposal substantiation reduces its effectiveness.

18.66 **Profit policies**. For determining profits, the Department has a number of guidelines, depending on the dollar value of the contract and whether the supplier is an agent or a manufacturer. Factors considered include:

- the cost of capital to the supplier;
- the level of general business risk;
- the contractual risk assumed by the supplier; and
- the supplier's Canadian value added contribution.

18.67 The Department's profit policies set out procedures to be used to determine the maximum amount of profit a contractor may be paid. The policies provide direction for the determination of allowable profit for each of the above components. In some instances the return to be paid is prescribed by the policies, while for other components, such as contractual risk, the policies provide for maximum rates of return up to which a supplier may be compensated, at the judgment and discretion of the procurement officers. The rates of profit to be paid for contractual risk vary, depending upon the basis of payment and the cost base agreed to in the contract. Where rates of profit to be awarded depend on the discretion and judgment of the procurement officer, guidelines are provided for their assistance. However, even though these guidelines set out criteria to be considered in determining the rate of return to be allowed, our audit noted that procurement files generally contain little, if any, evidence to indicate what factors had been taken into account in arriving at the rate ultimately awarded.

18.68 We also noted that a departmental study completed by DSS in 1987, which we verified, identified as a serious conceptual flaw the lack of a mechanism to ensure that the profit calculated is related to the level of return for investments of similar risk. In July 1991, subsequent to our audit, DSS officials indicated to us that the profit policy was being reviewed and that this review started in 1988.

Technology and advanced methods are needed to ensure that pricing of spare parts procurement is fair

18.69 DSS issues $600 million worth of contracts annually in acquiring spare parts for both military and civilian equipment. Paying a fair price for these has been a concern of procurement authorities in Canada and abroad for many years.

18.70 The U.S. government responded to this concern with the Buy Our Spares Smarter program. This program uses cost reduction methods such as "break-out" analysis to search for alternative sources of supply, which are cheaper than prime contractors, agents or middlemen. The U.S. program also uses value analysis, where technical and cost analysts determine the "should cost" value of an item. Extensive use of computerized data bases is central to the program, providing information on technically capable sources of supply, procurement history and prices paid for spare parts and other equipment.

> *Paying a fair price for spare parts has been a concern of procurement authorities in Canada and abroad for many years.*

18.71 DSS initiated a pilot test in 1989 of several information data bases similar to those being used in the U.S. to assess their effectiveness in achieving reduced prices in the acquisition of spare parts. These systems have proven to be an effective tool in detecting overpricing in spare parts procurement.

18.72 After the success of the pilot test, DSS obtained Treasury Board approval to fund a Canadian Item Information Service that incorporates spare parts pricing and sourcing information for both U.S. and Canadian requirements and anticipates annual savings to the government of $12 million. The system was implemented 1 April 1991.

18.73 One area where we believe that the application of modern technological tools such as the Item Information Service could provide significant savings to the Crown is in the acquisition of initial provisioning of spare parts. Initial provisioning is the acquisition of the initial set of spare parts and equipment needed to support ships, aircraft or other large systems in major Crown projects during their early years of operation. DSS procures these spare parts, representing thousands of parts valued at millions of dollars, from the prime contractors for the projects, to ensure that the total system responsibility of prime contractors is not diminished and to maintain the contractor's warranty against defects. Initial results of work currently under way by DSS on one major Crown project indicate that significant savings could be achieved by using these technological tools to review and challenge the price of initial provisioning spares which the prime contractor proposes to acquire on behalf of the government. We suggest the extension of the application of these technological tools to cover all initial provisioning of spare parts procurement.

18.74 Through training programs or other means, procurement officers should be given assistance in deciding when detailed price substantiation should be carried out, the extent of such substantiation, and the amount of documentation required.

18.75 The price certification currently provided by suppliers in support of a non-competitive, non-commercial price proposal should also include a certification of the accuracy, currency and completeness of the price support information, as of the time a non-competitive contract is awarded.

18.76 The profit policy should be revised to ensure that the profit calculated is related to the level of risk assumed by the supplier.

18.77 DSS should ensure that procurement officers are provided with sufficient technological tools and advanced methods to enable them to substantiate price proposals effectively.

Department's response: *DSS has undertaken a review of the profit policy, and a proposed policy has been drafted which is designed to achieve the objective of better ensuring that profit is related to the level of risk assumed by the supplier. Consultations with the industry are currently under way. A revised policy will be put in place when the consultations are completed.*

Prior to the award of non-competitive, non-commercial contracts valued over $50,000, suppliers are presently required by DSS policy to submit a certification indicating their adherence to departmental costs and profit policies. Such a certification is normally provided by the supplier with its price proposal. Since there is no indication that suppliers have deliberately withheld supporting information, the Department sees no need to replace the current process with one requiring a certification of the accuracy, currency and completeness of the price support information as of the time a non-competitive contract is awarded.

The Supply Operations Sector has embarked on a program to streamline and modernize its operations, including the tools to verify price proposals. Item level information is the most cost-effective tool available at the present time. Improvements will continue to be made to the item information data base.

As part of its ongoing review of departmental policy and procedures, DSS is planning a review of its practices on pricing of non-competitive contracts. This includes the policy on price verification, the extent of information required of suppliers, and the roles of procurement staff, cost analysts and auditors. DSS is also revamping its training program for procurement officers and price substantiation will continue to be addressed.

Government Post-contract Financial Audit

18.78 Government contracts are often complex and frequently involve projects of significant value. They are usually carried out by a prime contractor and many subcontractors, each of whom may participate in numerous government contracts as well as private sector work. In such an environment it is essential that only allowable costs are identified and charged to the appropriate government contract.

18.79 To ensure that the prices paid for goods and services procured are fair and reasonable in the circumstances, the Department must verify the costs and profits of contractors. An independent audit of contracts, carried out by the Audit Services Group on behalf of DSS, is one of the principal tools available to the Department to discharge its responsibilities.

To ensure that the prices paid for goods and services procured are fair and reasonable in the circumstances, the Department must verify the costs and profits of contractors.

18.80 Chapter 16 of our 1988 Report, on DSS post-contract financial audit practices, included a review of the type and extent of contract audit carried out by DSS, the management information available, the nature and disposition of contract audit findings and the practices of other countries.

18.81 We concluded that certain aspects of government post-contract financial audit coverage at DSS were deficient and did not provide adequate protection to the Crown. As a point of comparison, we compared the Canadian practice to that of the United States government.

18.82 We recommended that DSS determine and implement the optimum mix and coverage of contract audit, develop a contract audit management information system and promptly resolve contract audit findings. Further, we recommended that the disposition of audit findings be reported to senior management and the Audit Services Group and that DSS develop a more explicit cost accounting policy, particularly for the more complex contracts, and that it has contractors disclose their cost accounting practices.

18.83 In responding to our 1988 Report, DSS stated: "The present contract audit coverage carried out by the Department continues to provide protection to the Crown in ensuring that contractor costs and profits are reasonable." The Department's response also indicated that it was conducting a review to assess the scope of contract audit coverage and its adequacy for the future and that changes would be made if necessary.

18.84 After our 1988 Report was presented to Parliament, the Treasury Board requested a review by the Office of the Comptroller General of the post-contract financial audit activity in DSS. The review, completed in April 1989, came to the same conclusion as ours in 1988. In summary the Office of the Comptroller General stated that DSS had not carried out an overall assessment of risk, nor had it developed a means of determining whether the Crown was protected through the contract audit process.

Audit Objective and Scope

18.85 In this year's audit, we followed up on our 1988 observations to determine what progress has been made in improving the type and extent of contract audit carried out by DSS.

Observation

DSS is currently taking steps to address our 1988 Report observations and those of the Office of the Comptroller General's 1989 review on its post-contract financial audit practices

18.86 A contract audit tracking system has recently been implemented to monitor all contract audits from the time they are requested to the final disposition of audit findings. Management reports on the status of contract audit are included in the system.

18.87 An audit sampling and risk analysis plan is currently being tested for use by DSS contract auditors. This is expected to result in more audits than were carried out in the past for non-competitive non-commercial fixed price contracts. In addition, since the fall of 1990, price certifications provided by suppliers of non-competitive commercial goods have been subject to DSS audit.

18.88 DSS cost accounting interpretations are to be publicly distributed to provide further guidance and to address the issue of possible misinterpretation. In addition, DSS is implementing a Statement of Cost Accounting Principles questionnaire which will be completed by selected suppliers.

18.89 Because these changes are still in progress, we cannot determine their impact on the overall contract audit process. However, we will continue to monitor this function, which is an important internal control over government contracting.

Supplier Evaluation

18.90 Judicious selection of a supplier is the key to ensuring the quality and timeliness of goods and services procured for client departments. Contracting with suppliers who are not fully qualified may lead to performance delays, quality problems and monetary losses.

Judicious selection of a supplier is the key to ensuring the quality and timeliness of goods and services procured for client departments.

18.91 Treasury Board and DSS policies require that the competence of suppliers be verified before awarding government contracts. Competent suppliers are those who have the technical and financial capability to discharge the contract. This capability can be measured by means such as analyzing financial statements, assessing prior experience, obtaining opinions from independent technical organizations, and carrying out evaluations of suppliers' facilities.

18.92 Suppliers invited to bid on government contracts are selected from source lists maintained by DSS or through public tendering procedures. Capability evaluations may be performed at the source listing or bid evaluation stage. Their extent varies with the circumstances and is left to the judgment of the responsible procurement officer. Treasury Board policies on bid evaluation require that in certain circumstances, such as where identical proposals are received, a supplier's track record be considered.

18.93 Treasury Board recognizes that it is not always appropriate to focus simply on price. The products offered by different suppliers are not always identical, and different suppliers' past performance is not necessarily uniform. Assessments and trade-offs must then be made between different elements of performance such as price, dates of delivery, service and logistic support, to enable DSS to achieve the overall government objective, which is obtaining the best value in procurement.

Audit Objective and Scope

18.94 Our objective was to determine whether adequate mechanisms are in place to ensure that government contracts are awarded to competent suppliers. We reviewed DSS procedures and practices related to supplier evaluation and examined judgmentally selected contract files amounting to $400 million. We also interviewed users in major client departments.

18.95 We expected to find that DSS conducted reasonable evaluations of suppliers' technical and financial capabilities before awarding contracts, to ensure that the suppliers are capable of providing the required goods in the right amount, at the right time and of the required quality. We reviewed the adequacy of the management information system used by DSS to monitor and report on the post-contract evaluation of supplier performance and the use of such information.

Observations and Recommendation

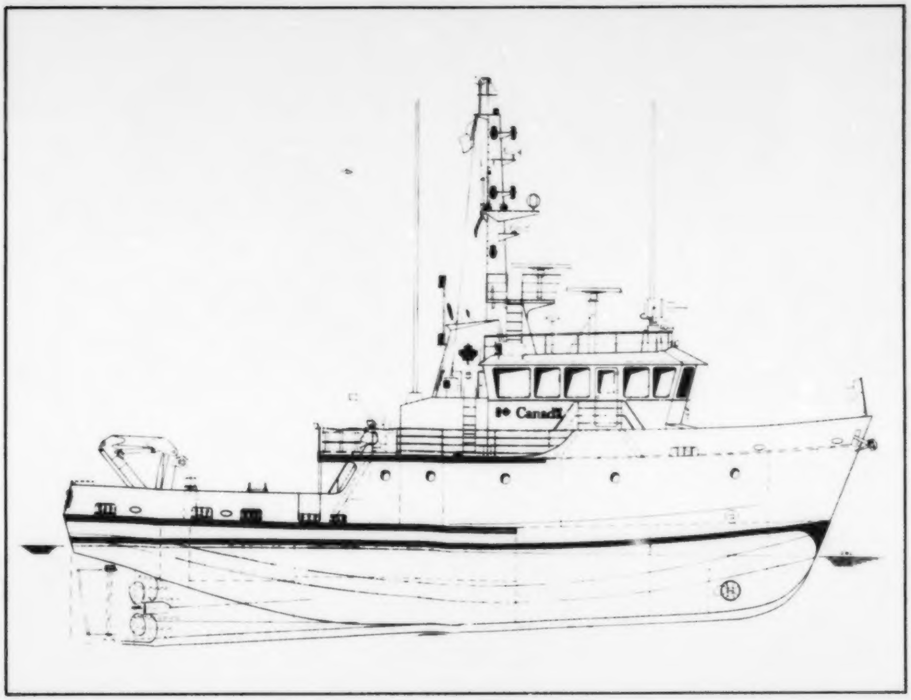
Generally, DSS has procedures in place to evaluate the technical and financial capabilities of suppliers

18.96 Our review of the selected sample of DSS contracts and the information we obtained through interviews with DSS and client officers did not reveal significant problems affecting product quality and timeliness of delivery resulting directly from the DSS supplier evaluation process. However, there are contract performance difficulties not directly related to DSS supplier evaluation systems, which are discussed in Chapter 19. In addition, documentation of the evaluation of suppliers' technical capabilities at the source listing stage requires improvements. With the introduction of the new Open Bidding Opportunities Policy, and an increase in the number of new suppliers, the importance of evaluating and documenting technical capabilities will increase.

There is no corporate system to record and report on supplier and product past performance

18.97 There is no formal corporate system for recording and communicating information on the performance of contractors and products on an ongoing basis to improve the quality of future procurements. Generally, the onus is on the client department to report difficulties encountered. The information reported rests with the procurement officer responsible for the contract and is not readily available to other procurement units.

18.98 With a formal system, where contract performance information is shared by all parties involved, responsibility for difficulties encountered could be determined and problems addressed on a timely basis. In addition, DSS would be able to provide client departments



A naval architect's design for the vessel that was never built (see Case 4, paragraphs 18.102 to 18.105).

with a record of past performance of suppliers to facilitate their procurement planning process.

18.99 DSS should investigate the feasibility and cost effectiveness of revising its computer system to include information related to suppliers' past performance.

***Department's response**: Since there is less reliance on the use of source lists, as a result of the General Agreement on Tariffs and Trade, the Free Trade Agreement and the Open Bidding Opportunities Policy, supplier evaluation is undergoing a significant change. The use of supplier past performance is being reviewed by the Department as part of establishing a comprehensive supplier history and capability data base.*

Ship Design Contracts

18.100 In the course of our audit it came to our attention that difficulties exist in the area of ship design contracts. Case 4 is an illustration of the types of problems encountered.

18.101 Our discussions with client departments and with DSS officers indicated that various factors contribute to the problems encountered in the procurement of ship designs and that the types of difficulties illustrated in Case 4 are not uncommon in this area. They also indicated to us that DSS and its client departments are currently examining this area to determine if there are practical ways of overcoming such difficulties.

Case 4. Difficulties in Ship Design

18.102 In 1984, as the result of a competition, a naval architecture firm was awarded a contract worth $102,000 for the design of a vessel for a client department. In 1987, DSS asked selected shipyards for tenders for the construction of a ship based on this design. As all bids received for the specified design exceeded the available funding, the bidding process was discontinued. Another design contract for $60,000 was then awarded to the same firm with a view to reducing the cost of the ship by about $1 million.

18.103 In 1989, DSS requested construction tenders based on the revised design. A contract for $5.6 million was awarded to the lowest priced technically complying bidder. As required by the contract, the successful shipbuilder had to conduct a design check to "provide the Minister with a written statement in which the Contractor guaranteed that the design was sufficient to allow the vessel, when complete, to perform fully in accordance with the contract including the specifications". The architect engaged by the shipbuilder to carry out the design check noted in his report that he found deficiencies in the design. The firm that had designed the vessel was paid $13,000 to prepare a rebuttal in which it responded to the criticism in the above report. However, it did not convince the client department that a major design change was unnecessary. The client department directed a contract to the shipbuilder for the redesigning of the ship for an agreed amount of $300,000.

18.104 By February 1991, 10 months after the design check, construction of the ship had not started because of the need to correct the design and negotiate an increase in the price. DSS informed us that, as a result of the negotiations, the estimated construction cost of the ship increased by approximately $1 million. This amount consisted of $227,000 in modifications necessary to correct the design, $575,000 in escalation costs due to the delay, and $282,000 of additional requirements requested by the client department. On 24 May 1991, it was announced that the work had been cancelled because of a lack of resources.

18.105 Subsequent to our audit, the firm that made the original design acknowledged to this Office that there were a number of deficiencies in that design. However, in their professional opinion, the deficiencies were not severe enough to warrant a complete redesign of the vessel. We did not verify this opinion.

Quality Assurance

18.106 In 1989, we reviewed the history of quality assurance development in DSS and the policies and procedures the Department had established. We also reviewed the relationships between DSS and client departments in exercising quality assurance.

18.107 We recommended then that DSS consider, in consultation with central agencies, the need to clarify government policy on requirements for suppliers' quality assurance systems, including the adoption of Canadian or international quality assurance requirements. We also recommended that DSS, in consultation with its customer departments, clarify and reach agreement on an acceptable division of responsibilities for quality assurance.

18.108 We reviewed actions taken by DSS in response to these recommendations and noted that DSS has adopted various methods for promoting the use of international quality standards. The initiatives taken include intradepartmental discussions with the Product Quality Management Committee. The Canadian General Standards Board has replaced its own quality assurance standard with the International Standards Organization series as the basis for its quality listing programs. DSS reported to us that these programs are now an integral element of the sourcing process for such areas as computers, office furniture and office supplies. These programs assist client departments in establishing the appropriate level of quality required from suppliers. DSS officers indicated to us that the application of these international standards will be expanded to other products.

18.109 In support of its responsibility to plan and organize for quality assurance, DSS also developed a matrix of quality elements and related tasks. This delineates the relationship between DSS and its clients for product quality management issues. This matrix has recently been incorporated in the DSS customer manual.

Skills Development and Training

18.110 DSS is one of the largest purchasers of goods and services in Canada. It procures approximately 17,000 categories of goods and services on behalf of federal departments and agencies. To meet the varied and complex procurement requirements of client departments, procurement officers must have a wide range of skills.

18.111 The Department is undergoing significant changes in automation and the use of technology in procurement. At the same time there are continuing changes in the products procured and their technical aspects. The training and skills of procurement officers are the key to their effectiveness in providing centralized procurement services to the Government of Canada.

18.112 DSS currently provides a variety of training courses and programs for procurement officers. These are designed to provide knowledge of the procurement function, an understanding of the procurement and supplier environment, planning and problem solving skills, and specific procurement-related skills in areas such as cost and price analysis, and accounting. The courses are supplemented by on-the-job training and courses conducted by some, but not all, operating directorates.

The training and skills of procurement officers are the key to their effectiveness in providing centralized procurement services to the Government of Canada.

Audit Objective and Scope

18.113 An audit of the Canadian government central procurement function would not be complete without a review of the skills development and training of the people who carry out this function.

18.114 The objective of this segment of the audit was to assess the adequacy of the current DSS training program in providing procurement officers with the skills to carry out their responsibilities. Our review was based on two recent internal studies, conducted by DSS, whose findings we verified.

Observations and Recommendation

There are insufficient mechanisms to ensure that training courses offered are up to date and meet their objectives

18.115 There are no structures in place to ensure that departmental courses are reviewed and kept up to date. Also, there is no formal link between DSS Supply Operations and the Corporate Training Group which provides the courses. For example, there is no advisory body tasked with reviewing or providing direction on procurement training needs.

18.116 Course validations and quality control reviews of the training program are not regularly performed. Thus, there is no assurance that the courses are meeting their objectives. Because the procurement service has undergone such rapid changes in the technologies used and policies and procedures applied, a review of the course is needed to ensure that the material covered is appropriate and up to date.

There is insufficient training to prepare procurement officers for work on major Crown projects

18.117 Major Crown projects are large and complex procurements each costing more than $100 million. Specialized expertise and detailed knowledge of specific rules, processes and policies are required of procurement officers who work on these projects.

18.118 The departmental studies, which we reviewed, identified gaps between the performance level of staff working on major Crown projects and the performance expectations of management for key skill areas for this type of procurement. The studies indicated that procurement officers need more training and development before starting work on major Crown projects. At the time of our audit, actions were being taken by DSS in response to these studies.

18.119 DSS training programs should be comprehensive and up to date, to provide

procurement officers with the appropriate skills to discharge their responsibilities.

Department's response*: DSS recognizes the importance of training for procurement officers and has recently established a formal structure, known as the Supply Portfolio Training Council, which will provide direction on procurement training needs and establish a formal link between the Supply Operations Sector and the Corporate Training Group.*

In response to the internal Major Crown Project Organization Study, a new project support branch was created in April 1991. One priority that this branch will be focussing on during its first two to three years of operation will be the identification of needs and the development of a training framework for both current and future major Crown project resources. Within this framework, the branch will develop and deliver a range of courses.

Chapter 19

Department of Supply and Services
Government Procurement and Industrial Development

Department of Supply and Services

Government Procurement and Industrial Development

Main Points

19.1 The procurement process has been used by the Government of Canada over the years as an instrument for achieving industrial and regional development and other related government objectives. The practice started with a modest attempt to give preference to domestic suppliers and evolved over the years to encompass socio-economic considerations which are now called national objectives (paragraphs 19.7 to 19.11).

19.2 The government's policy defines its national objectives with respect to the procurement process. It confirms the pre-eminence of operational requirements, competition, fairness and accessibility as the cornerstones of government procurement. Second priority is given to long-term industrial and regional development, and third to other national objectives. By incorporating industrial and regional development requirements into the procurement process, the government's goal is to create long-term, sustainable economic activity in Canada that results in goods and services which are internationally competitive (19.7 to 19.11 and 19.14).

19.3 Canada is not alone; other countries also use procurement as an instrument for industrial and regional development and other related government objectives. To the extent that foreign governments incorporate domestic industrial and regional development objectives in their procurement process, the Canadian government may find it necessary to have certain requirements to develop and protect some industries where governments are usually the major customers (19.21 to 19.23).

19.4 A number of reviews carried out within government have contributed to changes in policies and practices. Achievement of specific industrial and regional development benefits targeted under procurement contracts has been monitored and reported. However, there has not been a formal evaluation of the effectiveness of using the procurement process to achieve long-term industrial and regional development objectives (19.24 to 19.26).

19.5 Before the government awards procurement contracts to suppliers without competition or with limited competition, for the purposes of industrial and regional development, domestic preference, or other related government objectives, more attention should be given to the following factors to minimize contract performance risks such as cost overruns and delays (19.27 to 19.69 and 19.81 to 19.107):

Main Points (cont'd)

- assessing the selected suppliers' technical, managerial, and financial capabilities;
- providing the selected suppliers with the required technical assistance, where cost justified;
- ensuring that suppliers' estimates of contract cost and time of delivery are realistic, taking into consideration their capabilities;
- ensuring that, where feasible, the research and product development portion of procurement projects is satisfactorily completed and tested before the actual engineering and production begin; and
- considering the suitability of awarding fixed price contracts for work that involves significant research and development where the specifications are not firm.

19.6 To enhance public confidence in the fairness and accessibility of the government procurement process there should be, where feasible, greater use of competition, one of the cornerstones of government procurement policy (19.27 to 19.29).

Table of Contents

Paragraph

Procurement and National Objectives 19.7

Major Crown Projects 19.12

Audit Objectives and Scope 19.16
Observations 19.21
Other countries also use government procurement to achieve industrial and regional development and other related government objectives (19.21)
Procedures are needed for evaluating the effectiveness of the application of government policies and practices in achieving industrial development through procurement (19.24)
More effort is needed to minimize contract performance risks such as cost overruns and delays (19.27)
Case 1. Microwave Landing System 19.32
Case 2. Toronto Island Airport 19.38
Case 3. Space Station Project 19.49
Case 4. Tribal Class Destroyer Update and Modernization Project 19.58

Domestic Preference Policies 19.70

Audit Objectives and Scope 19.78
Observations 19.79
Procedures are needed for evaluating the effectiveness of the Procurement Review mechanism in achieving domestic preference policy objectives (19.79)
More effort is needed to minimize contract performance risks (19.81)
Case 5. Shipborne Integrated Communication System 19.83
Case 6. Procurement of Direction finding Equipment for Airports 19.94
Case 7. Procurement of Crash Firefighting and Rescue Vehicles 19.99
Certain aspects of domestic preference policies are complex to administer and may conflict (19.108)
There is a need for an evaluation of the cost effectiveness of the policy of giving preference to domestic agents (19.111)

General Recommendations 19.118

Department of Supply and Services

Government Procurement and Industrial Development

Procurement and National Objectives

19.7 The procurement process has been used by the Government of Canada over the years as an instrument for achieving industrial and regional development and other related government objectives. The practice started with a modest attempt to give preference to domestic suppliers and evolved over the years to encompass socio-economic considerations which are now called national objectives.

The government confirms the pre-eminence of operational requirements, competition, fairness and accessibility. Second priority is given to long-term industrial and regional development.

19.8 Canadian practices with respect to national objectives in procurement have attracted attention because of a number of large procurement contracts entered into by the federal government since the mid-1970s. In some industries, the capabilities of Canadian suppliers were not well developed. It was believed, however, that multinational corporations could be persuaded to establish facilities in Canada or transfer technology to Canadian partners as a condition of procurement contracts. Canada developed explicit policies and mechanisms, based initially on the concept of short-term economic offsets and subsequently more focussed on long-term industrial and regional development.

19.9 The general policy developed by the Department of Industry, Science and Technology provides overall direction to all government departments involved in the procurement process. It defines the federal government's national objectives with respect to the process and confirms the pre-eminence of operational requirements, competition, fairness and accessibility as the cornerstones of government procurement. Second priority is given to long-term industrial and regional development, and third priority to other national objectives. This general policy applies to all government procurement regardless of its value.

19.10 This chapter deals with the procurement process in the Department of Supply and Services (DSS) as it concerns industrial and regional development and other related government objectives. Issues related to the government's competition objective are discussed in Chapter 18. Operational requirements and other national objectives are excluded from the scope of this chapter.

19.11 In relating procurement issues to industrial and regional development objectives, we report our observations under two headings:

- procurement for major Crown projects, each of which has an estimated cost of over $100 million; and
- procurement contracts with an expected cost of less than $100 million, and the application of domestic preference policies.

Major Crown Projects

19.12 Major Crown projects have been a focus for industrial and regional development policies because their size is likely to make it worthwhile for suppliers to take measures such as establishing new facilities in Canada, transferring technology to Canadian partners, developing new subcontract relationships in different parts of Canada, and providing significant business opportunities to established Canadian firms.

19.13 In evaluating suppliers' proposals for major Crown project contracts, an "Industrial and Regional Development Benefit" is defined as a commitment by a supplier to carry out a particular type of business transaction or other economic activity as part of a procurement contract for the projects. Four general types of benefits are considered eligible transactions:

- production effort — the extent of Canadian content of goods and services produced as a result of the procurement contract;
- technology transfers — the importation of new proprietary technology or licences by a Canadian company. The technology must be exploitable in terms of access to world markets or to specified regional areas;
- investment — the development of a facility or project through direct investment in Canadian industry; and
- other long-term indirect economic benefits (such as offsets).

The government's goal is to create long-term, sustainable economic activity in Canada that results in goods and services which are internationally competitive.

19.14 By incorporating industrial and regional development requirements into the procurement process, the government's goal is to create long-term, sustainable economic activity in Canada that results in goods and services which are internationally competitive.

19.15 Operating departments, jointly with DSS, the Department of Industry, Science and Technology and, recently, the Atlantic Canada Opportunities Agency and the Department of Western Economic Diversification, plan and administer major Crown projects through interdepartmental committees which they chair. The operating department leads the project and focusses on its operational and technical aspects. The Department of Industry, Science and Technology and the Atlantic Canada Opportunities Agency and the Department of Western Economic Diversification play the primary role in planning and monitoring the industrial and regional development requirements. DSS participates in formulating procurement plans and strategies and administers the project contracts. Key decisions are approved by Cabinet.

Audit Objectives and Scope

19.16 We reviewed management practices relating to the use of procurement in major Crown projects as an instrument for achieving industrial and regional development and other related government objectives.

19.17 We examined procedures for risk management as a part of procurement planning activities and reviewed the following areas:

- procurement and industrial and regional development practices in other countries;
- procedures for evaluating and reporting policy application effectiveness; and
- procedures for management of contract performance risks, both in terms of project costs and schedules.

19.18 Currently DSS participates in the administration of contracts for several major Crown projects at various stages of completion, with an estimated total value of $23 billion. This year we reviewed selected projects with an estimated cost of $4 billion. Most of the remaining projects are defence related and will be reported on in our 1992 Report.

19.19 This year's review included the following Department of Transport projects:

- The Radar Modernization Project, a $620 million competitively awarded contract to modernize the radar and display site systems in airports across Canada. This project was nearing completion at the time of our audit.

- The Microwave Landing System, a project to develop and install microwave landing guidance systems in airports across Canada. The government is planning to award the main contract, without competition, to a selected supplier. Negotiations were being carried out for the main contract at the time of our audit; the estimated total cost is $450 million.

- The Canadian Automated Air Traffic Control System, a $700 million project to replace the information handling systems for air traffic services across Canada. The main contract had recently been competitively awarded at the time of our audit.

19.20 We also reviewed the procurement planning activities in support of regional distribution expenditure targets for the new Space Station for the Canadian Space Agency, expected to cost $1.2 billion between 1988 and the year 2000. In addition, we followed up on our 1988 audit observations on the Canadian Navy's Tribal Class Destroyers' Update and Modernization Project, whose estimated cost is approximately $1 billion. Research studies on procurement practices of other countries were also reviewed.

Observations

Other countries also use government procurement to achieve industrial and regional development and other related government objectives

19.21 Modern governments are very substantial buyers of goods and services. They often seek to use the leverage provided by their buying power to achieve policy objectives that go beyond acquiring the goods and services needed for government operations. These objectives are achieved in various ways, depending on national circumstances:

- Certain government contracts may be restricted to domestic suppliers, often on the basis of national security. For example, the United States prohibits procurement of certain foreign products by its Department of Defense; the Department must give preference to American suppliers for research and development contracts; and U.S. Navy ships must be built in American shipyards using American components.

- Preference is given to procurement from small domestic suppliers in the United States in accordance with The Small Business Set Aside legislation. In addition, price premiums are allowed to domestic suppliers, under its Buy American legislation, which allows a 6 percent price premium for domestic products. This premium can be raised to 12 percent to favour small businesses in regions of high unemployment. Reciprocal agreements exempt certain countries, including Canada, from the provisions of this latter legislation.

- Foreign suppliers may be required to provide trade offset benefits to compensate for foreign content in their government contracts, as is the case in Australia.

19.22 International agreements, such as the General Agreement on Tariffs and Trade and the Canada-U.S. Free Trade Agreement, limit the extent to which governments can use procurement to achieve national objectives. However, these agreements exempt significant goods procurement areas such as national security or defence, fisheries and oceans, and transport and communications, as well as all contracts for services.

19.23 To the extent that foreign governments incorporate domestic industrial and regional development objectives in their procurement process, the Canadian government may find it necessary to have certain requirements to develop and protect some industries where governments are usually the major customers. However, such requirements and trade barriers in other countries contribute to the difficulties facing Canadian industries attempting to penetrate foreign markets.

Procedures are needed for evaluating the effectiveness of the application of government policies and practices in achieving industrial development through procurement

19.24 A number of reviews carried out within government have contributed to changes in policies and practices related to industrial and regional development objectives for procurement. These include the 1985 government Task Force on Program Review and the 1984 draft report of the Industrial Benefits Task Force.

19.25 There has been monitoring and reporting by the Department of Industry, Science and Technology on the achievement of specific industrial and regional development benefits targeted under contract to prime contractors of major Crown projects. However, there has not been a formal program evaluation of the effectiveness of using the procurement process to achieve long-term industrial and regional development objectives.

19.26 A formal evaluation would assess the extent of the long-term industrial and regional development benefits actually achieved through major Crown projects procurements. Among other things, it would assess the long-term viability of the business activities established in Canada as a result of these projects. An important consideration would be examining ways to enhance the ability of these businesses to compete, in the long term, in export markets. Potential barriers include differences in product specifications, domestic procurement preference policies in other countries, and recent trends toward reduction in new defence spending worldwide.

More effort is needed to minimize contract performance risks such as cost overruns and delays

19.27 The purpose of using the procurement process as a tool for industrial and regional development objectives is to expand and enhance competitive Canadian industrial and export capabilities. The domestic base in certain industries is relatively limited and its regional distribution is uneven. Thus achieving industrial and regional development and other related government objectives through procurement for major Crown projects may result in the government selecting contractors, or prime contractors selecting subcontractors, who have relatively more limited capabilities than would otherwise be the case. This could involve some contract performance risks in terms of project cost overruns and delays.

The domestic base in certain industries is relatively limited and its regional distribution is uneven.

19.28 The competitive process, which is one of the cornerstones of the government procurement policy, normally minimizes performance risks by providing an opportunity to fully assess the technical, financial and managerial capabilities of competing suppliers, then awarding the contract to the most capable at a competitive price. Moreover, private sector prime contractors legally assume performance risks through the contractual terms and conditions. We found this to be the case in two of the projects examined -- the Radar Modernization Project and the Canadian Automated Air Traffic Control System Project. However, we found that contract performance risks are likely to be relatively greater when, for industrial and regional development or other related government objectives, the government:

- directs the awarding of a contract to a specific prime contractor without competition, as in the Microwave Landing System and related Toronto Island Airport projects which are described in Cases 1 and 2;

- mandates a regional distribution target of contract expenditures which has the potential to significantly constrain the prime contractor's choice of subcontractors, as in the Space Station Project described in Case 3; or

- requires the prime contractor to use a specific subcontractor, as in the Canadian Navy's Tribal Class Destroyer Update and Modernization Project described in Case 4.

19.29 Government officials and private sector contractors are aware of these risks and efforts are generally made to minimize them.

19.30 While such efforts contribute to reducing contract performance risks, we believe that, when contractors are selected by the government for the purpose of industrial and regional development or other related government objectives without the benefit of the competitive process, more effort is needed, before awarding contracts, to ensure that the risks are minimized. Such circumstances require giving more attention to assessing suppliers' technical, financial and managerial capabilities, providing suppliers with technical assistance, as needed and where cost justified, and ensuring that the contract terms and conditions are realistic, taking into consideration the capabilities of the supplier. They also require that the research and product development part of the project be completed, where feasible, in advance of production, and other measures to ensure that government operating requirements are met at reasonable cost and without delay.

19.31 The following cases illustrate some of the contract performance risks that are partially attributable to the use of procurement to achieve industrial and regional development and other related government objectives, and the efforts made by government officials to mitigate their impact.

Case 1. Microwave Landing System

19.32 The microwave landing system is an electronic system that provides precision landing guidance to aircraft. It gives a suitably equipped aircraft a runway position that enables it to land safely in conditions of low visibility. It was adopted for international use by the International Civil Aviation Organization in 1978, to become the sole international standard by the year 2000. In 1985, Treasury Board approved in principle the microwave landing system's adoption as the standard system for Department of Transport airports. The total estimated cost of this major Crown project was approximately $450 million in 1988.

The Science and Technology Contracting-out Policy encourages the fullest possible participation by Canadian industry in government sponsored research and development.

19.33 The government's Science and Technology Contracting-out Policy encourages the fullest possible participation by Canadian industry in government sponsored research and development in science and technology, to stimulate industrial innovation, help Canadian industries become internationally competitive, and thus provide additional benefits to the Canadian economy.

19.34 In April 1989 the procurement plan for the microwave landing system major Crown project, developed by DSS and the departments of Transport and Industry, Science and Technology, recommended competition among Canadian-based suppliers, with a requirement for industrial and regional development benefits emphasizing direct Canadian participation in engineering development and manufacturing. The procurement plan noted that "a sole-source contract would not allow selection of a contractor based on product quality, price and delivery, nor would it ensure that industrial and regional benefits would be optimized."

19.35 In August 1989 the government directed that a certain supplier, subject to demonstration of its capabilities in this field, become the prime contractor for the project.

The microwave landing system is an electronic system that provides precision landing guidance to aircraft. It gives a suitably equipped aircraft a runway position that enables it to land safely in conditions of low visibility (see Cases 1 and 2, paragraphs 19.32 to 19.48).

This choice was intended to help in the development of high technology and employment in a certain region of Canada. The intention of the government was to issue a contract in 1990, with deliveries of the required equipment beginning in 1992-93. A smaller contract had already been directed by the government, without competition, to the same supplier for similar but more limited technical work at the Toronto Island Airport, as an opportunity to demonstrate its capabilities in this type of technology. However, the supplier has experienced difficulties in performing this smaller contract, and expressed concerns that development work for the major Crown project will be more extensive and costly than anticipated by the government and that the financial risks could be significant.

19.36 The government now estimates that delivery of the first equipment for the major Crown project is not likely before 1995. At the time of our audit, the Department of Transport was carrying out a review of its options in light of recent cost and time estimates and the performance difficulties encountered in the smaller contract described in Case 2. The review identified two options which would comply with the Department of Transport's operational requirements. The first is to award the contract for a full scale Phase I development of the microwave landing system in Canada to the supplier designated by the government. The second option is to open the requirements for Phase I of the major Crown project to competition. According to Department of Transport files, the second option is less expensive and offers a more flexible approach to project implementation planning. However it would not be consistent with the government directive.

19.37 In August 1991 government officials advised us that the review was complete and that the Department of Transport intends to award the contract for the major Crown project to the supplier designated by the government, subject to this supplier's satisfactory installation and testing of the equipment for the Toronto Island Airport contract described in Case 2 and also subject to Treasury Board's effective approval and successful contract negotiation.

Case 2. Toronto Island Airport

19.38 Planning for the Toronto Island Airport microwave landing system began in 1986. The installation by the Department of Transport was to be in advance of the planned major Crown project (described in Case 1) because of the urgent need to improve the regularity and safety of air carrier service at Toronto Island Airport and because the current instrument landing system could not be used there. The Department of Transport specified the need to have the new equipment installed by late 1987.

19.39 In May 1987, the government directed that a certain supplier be awarded, without competition, a contract for the Toronto Island Airport system. The decision was taken to provide this supplier with an opportunity to demonstrate its capabilities in this field. Substantial financial and technical risks associated with this directed contract had been identified and communicated by DSS and Department of Transport officials.

19.40 In May 1987 DSS began the acquisition process and negotiated the contract with the supplier. DSS' financial assessment of the supplier, at the time, indicated high financial risks to the government.

19.41 In December 1987, another domestic company announced the purchase of this supplier. This was perceived by government officials as alleviating the financial risks to the government associated with contracting directly with this supplier for the Toronto Island Airport equipment. In March 1988 a contract was issued to the supplier, without competition, for a fixed price of $2.4 million, and a delivery date of June 1989. A performance guarantee was provided by the supplier's new parent company.

19.42 In the spring of 1990, the parent company declared bankruptcy. The supplier subsequently made an assignment for bankruptcy.

19.43 In August 1990, a consortium considered purchasing certain assets of the bankrupt supplier. In accordance with a memorandum of understanding between DSS and the consortium, the consortium agreed to pursue the objective of making the supplier a modern electronic facility that specializes in ground navigation equipment thereby becoming the Canadian centre of excellence for the design, development and production of microwave landing systems including the related world product export mandate. The government also agreed to negotiate, on a sole source basis, with the supplier for the procurement of the first phase of the microwave landing system major Crown project referred to in Case 1. Subsequently the consortium purchased the assets of the supplier and rolled them into a new entity.

19.44 The memorandum of understanding also provided that the original contract for the Toronto Island Airport would be terminated by mutual consent, and a new contract would be entered into with the supplier. The government had paid approximately $1 million for some of the work completed under the original contract. The new contract was to be on a cost-reimbursable basis until a firm fixed-price contract could be negotiated. An interim contract with a limit of $3.2 million has been issued. The supplier currently estimates the costs to complete the work at $7.5 million, bringing the total estimated cost of the project to a potential $8.5 million.

19.45 The supplier is now projecting that the work originally planned for 1989 will not be completed until 1992. In the meantime, the government leased similar equipment to meet the urgent operational requirements of the Toronto Island Airport at a cost of $1 million to April 1991.

19.46 At the time of our audit, DSS hired an independent consultant to review the supplier's ability to complete the contract successfully. The consultant was also directed to assess the cost of completing the contract, and the feasibility of the schedule for completion and installation.

19.47 Subsequent to our audit, the consultant reported to the government that, with regard to project control and technical capability, the supplier was above industry average and that the supplier should be able to complete the contract within the estimated $7.5 million. The consultant also reported that there would probably be a slight slippage in delivery and expressed concern that the planned level of software testing prior to system testing could have a significant negative impact on the completion date. In addition, the Department of Transport informed us that the contract for the completion of the work has been negotiated on a final price basis of $7.1 million and that Treasury Board has approved it.

19.48 Our analysis of Cases 1 and 2 indicated that:

- Before research and development contracts are awarded, without competition, to specific suppliers for industrial and regional development or other related government objectives, more attention should be given to ensuring that project costs and time estimated by the suppliers are realistic, taking into consideration their technical and financial capabilities.
- The practice of awarding fixed-price contracts for work that involves significant research and development, where the specifications are not firm, should be reconsidered.

Case 3. Space Station Project

19.49 The Space Station is an international project initiated by the U.S. government to build and launch into orbit a station for space research. Besides the United States, it involves European countries, Japan and the Canadian Space Agency. The Canadian government began discussions with the U.S. government in the early 1980s and in 1988 made a formal agreement to participate in this project. The cost of Canada's portion of the work is currently estimated at $1.2 billion to the year 2000.

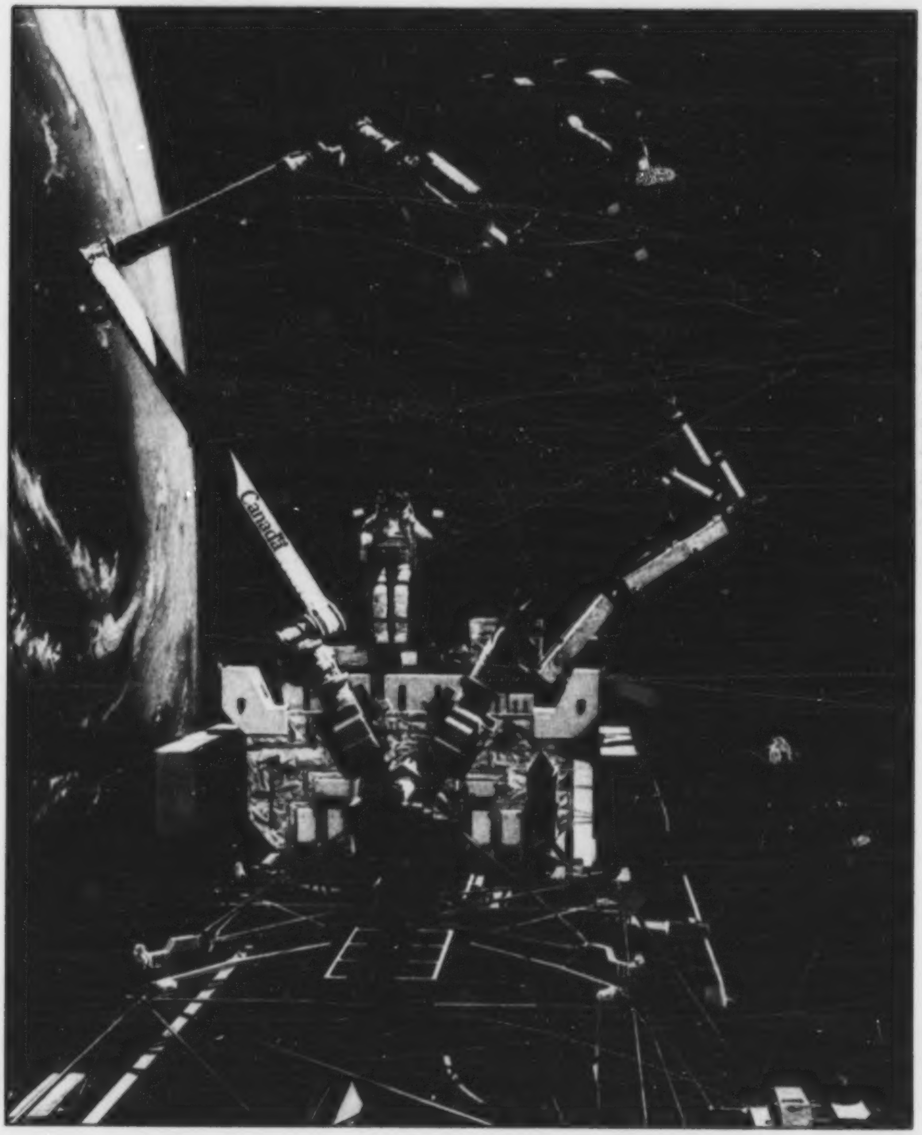
19.50 The government's Science and Technology Contracting-out Policy encourages the fullest possible participation by Canadian industry in government-sponsored research and development in science and technology to provide additional benefits to the Canadian economy.

19.51 Canada's interest in the Space Station Project centres on the use of the station's facilities and the accelerated high technology space research and development the project would bring to the Canadian private sector, universities and federal and provincial research centres. Throughout, a major emphasis of the government was on spreading the benefits across the various regions of Canada.

19.52 In 1986, the federal government announced its $3 billion expenditure plans for all components of its space program, including the Space Station Project, a Radar Remote Sensing Satellite System and the federal contribution to the funding of the Mobile Communication Satellite. The government indicated that taking part in all projects related to the space program was expected to create more than 100,000 person-years of employment and up to $8 billion in benefits to the private sector by the year 2000. A supplier was designated by the government, without competition, as the prime contractor for the Space Station Project. The expected regional distribution of government expenditures for all space program projects was to be 10 percent each for the Atlantic provinces, the Prairie provinces and British Columbia and 35 percent each for Quebec and Ontario.

> *Throughout the Space Station Project, a major emphasis of the government was on spreading the benefits across the various regions of Canada.*

19.53 Setting a regional percentage distribution for space project expenditures involved certain risks; limited amounts of the kinds of work involved had been carried out in Canada outside of Ontario and Quebec, particularly in Atlantic Canada. In May 1988, Treasury Board requested that a report be prepared on plans for attaining the regional distribution targets. The government-designated prime contractor was asked to establish an industry team of senior executives from space companies across Canada expected to participate as major subcontractors in the space projects.



The Space Station is an international project initiated by the U.S. government to build and launch into orbit a station for space research. Besides the United States, it involves European countries, Japan and the Canadian Space Agency. The cost of Canada's portion of the Space Station is estimated at $1.2 billion to the year 2000 (see Case 3, paragraphs 19.49 to 19.57).

19.54 The team assessed the capabilities of private sector companies and, in November 1988, proposed targets which, together with additional space expenditures, were similar to those previously announced by the government. These were approved by Treasury Board in March 1989. The team also proposed a number of measures that would provide flexibility in how the targets were to be met:

- The regional distribution percentages of expenditures would be applied to the total value of the industry team commitments, not to the individual contracts.
- Other high technology work anticipated by the prime contractor, but not directly related to the space projects, was included. This accounted for a significant proportion of the allocation for a certain region of Canada, where there was the least space-oriented industry.

- For the Space Station, Radar Remote Sensing Satellite System and the Mobile Communication Satellite projects, regional targets were made conditional on the technology being available in Canada and on the regional suppliers being competitive in price, schedules and technical capability.

19.55 A subsequent implementation plan described the required co-operative efforts by private sector companies, provincial governments, and other federal government departments and agencies to develop suitably qualified supply sources. Achievement of the targets was linked to financial support from various federal agencies to improve the availability of qualified subcontract sources in certain regions of Canada.

19.56 In January 1990, the prime contractor and the Canadian Space Agency agreed on the principles to be incorporated in a memorandum of understanding. At the time of our audit, the memorandum had not been finalized.

19.57 Our analysis indicated the following:

- Although the government did not solicit competitive bids for the prime contract for this important high technology major Crown project, it designated a highly capable Canadian space technology supplier to be the prime contractor.
- Despite the difficulties involved in allocating some high technology space contracts to suppliers in certain parts of Canada, the government's designated prime contractor and its potential private sector subcontractors developed a realistic procurement plan. The plan recognizes that achieving government targets for regional distribution of some space projects is conditional on the availability of the space technology and the regional suppliers being competitive in price, schedule and technical capabilities.
- We believe that the government and the private sector suppliers are making reasonable initial efforts to meet government industrial and regional development objectives. However, the space projects are still at an early stage and the ultimate success of these initial efforts in meeting government objectives cannot yet be determined.

Case 4. Tribal Class Destroyer Update and Modernization Project

19.58 In Chapter 16 of our 1988 Report, we reported on our review of the Canadian Navy's Tribal Class Destroyer Update and Modernization major Crown project (TRUMP). We observed that there had been delays in commencing government contract financial audits, considerable slippage in meeting project contractual milestones and difficulties in meeting its planned schedules. We also expressed our concern, at that time, that such difficulties could result in cost escalations and further delays as the project neared completion.

19.59 This year we determined that there is no further delay in DSS contract financial audits of the TRUMP project. Our comments on the DSS contract audit function are included in Chapter 18 of this report. We also reviewed the history and progress of the TRUMP project to determine whether delays and cost overruns are still a concern.

The Shipbuilding Policy requires that most government ships be built, modernized or repaired in Canadian shipyards.

19.60 The TRUMP project, to upgrade and modernize four Canadian Navy destroyers, was first presented to the government in 1977. The project involves a mid-life refit and replacement of old equipment with modern capabilities, specifically anti-aircraft and anti-missile area defence and a new command and control system.

19.61 The government's Shipbuilding Policy requires that most government ships be built, modernized or repaired in Canadian shipyards. In 1983, in an attempt to distribute its projects among shipyards in several regions of Canada,

The TRUMP project, to upgrade and modernize four Canadian Navy destroyers, involves a mid-life refit and replacement of old equipment with modern capabilities, specifically anti-aircraft and anti-missile area defence and a new command and control system (see Case 4, paragraphs 19.58 to 19.69).

the government required that the shipyard portion of the TRUMP project be given to a specific shipyard in a certain region not already involved in other major government shipbuilding projects, providing that a satisfactory contractual arrangement could be negotiated between the TRUMP prime contractor and the specific shipyard.

19.62 In 1984, a contract for the project definition phase was awarded to the lowest bidder. In 1986, this phase was completed and DSS awarded the prime contract, without competition, to the same contractor. The government stated that this decision was made in the national interest, to accelerate the contract award process, place work with the then-ailing Canadian shipbuilding industry, and avoid placing contracts with prime contractors already involved in other major government shipbuilding work.

19.63 The prime contract was placed with certain conditions imposed by the government. The conditions were that the shipyard work for the first two ships was to be placed with a specific shipyard, and the shipyard work for the remaining two ships was to be competed within the Canadian shipbuilding industry. The prime contract was also governed by a target/ceiling incentive arrangement with a ceiling price of $946 million (1984 dollars) and was subject to economic and foreign exchange adjustments. The contract gave the prime contractor total responsibility for the project. Under conditions set out in the prime contract, the government assumed responsibility for non-performance of the shipyard.

19.64 The shipyard portion of the work for two of the ships was subcontracted to the shipyard designated by the government, for a ceiling price of $115 million (1984 dollars). In 1988, the prime contractor held a competition for the remaining two ships. The same shipyard won this bid, partly because of the experience and knowledge gained from work on the first two ships and partly because of the incremental costs of having the work carried out elsewhere. The ceiling price of the shipyard subcontract was then increased to $235 million (1984 dollars) covering all four ships. The shipyard obtained a $20 million performance bond and a $20 million commercial labour and material payment bond on each of the ships. The government, under conditions set out in the prime contract, continued to be responsible for the non-performance of the shipyard for all four ships.

19.65 By 1989 several disputes had arisen among the parties. Through late 1989 and 1990, DSS attempted to negotiate a settlement with the prime contractor. A settlement offer was made by DSS in December 1990 which included certain relief to the prime contractor in the areas of costs and schedules. However, the parties failed to reach a settlement. This proposed settlement did not include the projected cost overrun by the shipyard, being negotiated separately between the federal government and the government of the province where the shipyard is located. It was understood during the negotiations that the prime contractor would be relieved of the shipyard cost overruns.

19.66 By April 1991 the cost of the TRUMP contract, including economic adjustments and contract changes and amendments, had increased to $1.3 billion. Both the shipyard work and the combat system are late and the project has fallen behind schedule by 18 to 24 months. On 11 April 1991 the prime contractor launched a lawsuit against the government, the shipyard and other subcontractors claiming damages of $750 million.

19.67 In June 1991, DSS and the prime contractor signed a memorandum of understanding setting the principles on which the dispute would be settled by the end of August 1991. The memorandum calls for the suspension of the litigation against the government, the shipyard and all other major subcontractors. It also called for a major restructuring of the current contractual arrangements among the parties. Negotiations between DSS and the prime contractor continued and separate negotiations between the federal government and the government of the province where the shipyard is located also continued. The actual amount of increase in costs is dependent on the outcome of the negotiations and final settlement.

19.68 In July 1991 the federal government reached a separate agreement in principle with the provincial government where the shipyard is located, whereby the two governments would fund the cost overrun of the shipyard contract, currently estimated at $135 million.

19.69 Since the settlement between DSS and the prime contractor will be finalized after our audit, we have limited our analysis to the following comments:

- There are potential performance risks, in terms of cost overruns and delays, when the government requires the prime contractor to use a specific subcontractor, without competition, for the purpose of industrial and regional development or other related government objectives.
- When the government guaranteed the performance of the shipyard, a major subcontractor, it introduced an abnormal element into its contractual relationship with the prime contractor, who was supposed to have total project responsibility. This contributed to the ensuing prolonged disputes and the resulting financial arrangement with the government of the province in which the shipyard is located.

Domestic Preference Policies

19.70 According to DSS policy manuals, the basic objective of government contracting is to obtain the best value for money through the optimum combination of specified quality, specified time and lowest life-cycle cost of the acquisition. Notwithstanding this basic intent, it is the policy of the government, when appropriate, to relate the contracting process to national objectives. Over the years, DSS has translated these government objectives into operational policies and practices and incorporated them into its procurement process.

19.71 Procurement contracts with a value between $2 million and $100 million, amounting to $3 billion annually, are reviewed by the

Procurement Review Committee. The Committee is chaired by DSS and includes representatives from central agencies, policy departments and key operating departments. Its objective is to obtain lasting benefits from the federal procurement activity, extending beyond the immediate impact of the procurement expenditure itself, toward the economic and social development of Canada.

19.72 Most of the DSS procurement policies built up over the years in pursuit of national objectives are designed to provide preference to Canadian suppliers, and support the Canadian content in federal government procurement that is exempt from the provisions of international trade agreements. These domestic preference policies generally apply to procurement contracts valued below $100 million. Some of these policies could also apply to major Crown projects at the discretion of the interdepartmental committee of the particular major Crown project. They include the Shipbuilding, Science and Technology Contracting-out, Priority Groups, Area Buy, Canadian Content Premium and Canadian Value Added Profit policies.

DSS procurement policies in pursuit of national objectives are designed to provide preference to Canadian suppliers, and support Canadian content.

19.73 **The Shipbuilding Policy** limits competition on most government shipbuilding contracts to Canadian shipbuilders.

19.74 **The Science and Technology Contracting-out Policy** encourages the fullest possible participation by Canadian industry in government-sponsored research and development in science and technology, to stimulate industrial innovation, help industries become internationally competitive, and thus provide additional benefits to the economy.

19.75 **The Priority Groups Policy** limits competition for government procurement to domestic suppliers whenever possible. The policy places suppliers in four groups: Canadian-based manufacturers and service providers; Canadian-based agents providing after-sales service; other Canadian-based agents; and all others, including foreign manufacturers and governments. If there are three or more suppliers within the first category, competition is limited to that group. Competition is opened up to the other groups, in order of priority, until a minimum of three potential suppliers have been identified.

19.76 **The Area Buy Policy** provides for acquisition of goods and services by regional DSS offices from businesses located in the regional office's immediate area. The majority of these acquisitions are of a low dollar value and are commercially available off the shelf.

19.77 **The Canadian Content Premium Policy** and the **Canadian Value Added Profit Policy** are designed to encourage industrial development in Canada by rewarding suppliers for the extent of domestic content in products supplied to the government. The Canadian Content Premium Policy assigns a penalty of 10 percent of the foreign content in products to the bid price when competing bids are evaluated. The winning bid is the bid with the lowest adjusted price. The Canadian Value Added Profit Policy is applied in sole source, non-commercial contracts and provides for a higher profit for Canadian materials content, for Canadian research and development, and for subcontracting in certain regions of Canada. Such profit is restricted to a maximum of 5 percent of the costs of any contract to which it applies.

Audit Objectives and Scope

19.78 In reviewing the application of domestic preference policies to the procurement process, we focussed on the Procurement Review Committee mechanism and the application of the Priority Groups Policy. In particular, we looked for procedures for evaluating the incremental cost and benefits of policy applications and for measures to identify and manage contract performance risks in terms of costs and schedules. We will review other domestic preference policies in future audits.

Observations

Procedures are needed for evaluating the effectiveness of the Procurement Review mechanism in achieving domestic preference policy objectives

19.79 The scope of the Procurement Review Committee includes approximately $3 billion of planned procurement annually. However, because the Committee's recommendations are not categorized or summarized, there is no systematic information on the total number or value of contracts for which a potential for industrial and regional development objectives was identified, or the nature of the anticipated benefits. There is also no feedback to the Procurement Review Committee secretariat on whether contracts are issued, or the extent to which contracts reflect the Committee's recommendations. Systematic feedback of such information would provide a necessary basis for improving the procurement review mechanism, and for evaluating its effectiveness.

19.80 Furthermore, an internal DSS audit noted that a large percentage of the projects reviewed by the Procurement Review Committee were sole source where there was clearly only one supplier that could deliver the goods or services. There is limited opportunity to obtain additional industrial and regional benefits in such cases, which still take the Committee about four weeks to decide. The internal audit recommended that sole source contracts referred to the Procurement Review Committee should only be reviewed on a sample basis, to improve the efficiency of the procurement process.

More effort is needed to minimize contract performance risks

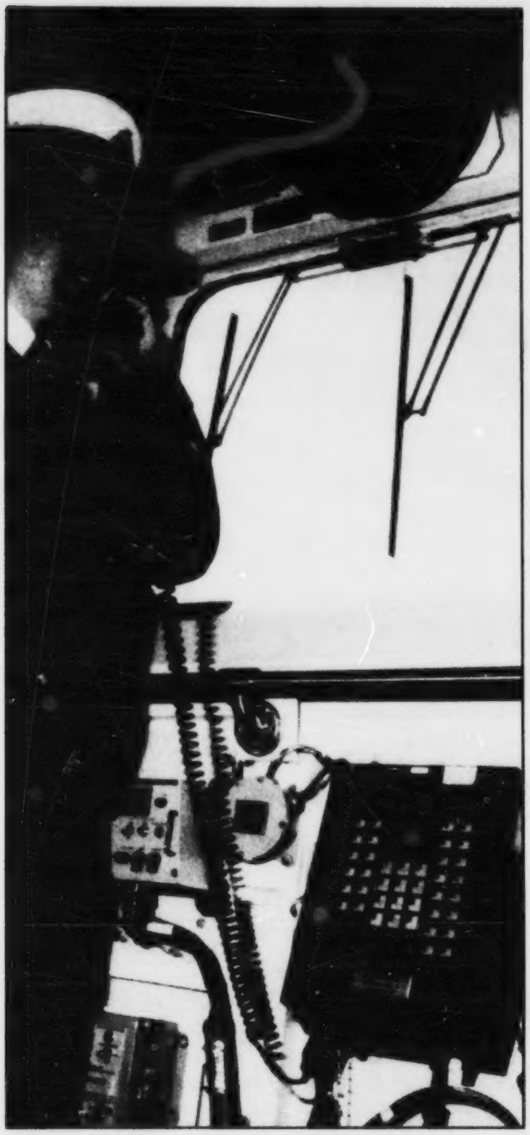
19.81 The main purpose of applying domestic preference policies to procurement is to support Canadian businesses. Therefore competition for these contracts is generally limited to domestic suppliers. Since the domestic base in certain industries is limited, the application of these policies may result in awarding contracts for some complex projects to domestic sources with relatively more limited capabilities than would otherwise be the case. This may contribute to such contract performance risks as cost overruns and delays. Efforts are generally made to mitigate the impact of such risks, but more attention needs to be given, before contracts are awarded, to assessing suppliers' capabilities, providing suppliers with technical assistance, as needed and where cost justified, and ensuring that contract terms and conditions are realistic, taking into consideration the supplier's capability. Attention also needs to be given to completing the research and product development part of the contract, where feasible, in advance of production and co-ordinating small research contracts with related major projects.

19.82 During our review of a judgmental sample of procurement contracts valued at $400 million, three cases came to our attention where the impact of such performance risks could be significant. Cases 5, 6 and 7 illustrate these risks and the efforts made by government officials to minimize their impact.

Case 5. Shipborne Integrated Communication System

19.83 In the early seventies the Department of National Defence developed the concept of the Shipborne Integrated Communication System (SHINCOM), a point-to-point communications system that would be faster, more effective and less costly to install than the systems fitted on warships of the day. In the late seventies the Department of National Defence obtained approval to develop the system. It was expected that the SHINCOM system would be used in future modernization projects for the Canadian Navy, such as the proposed Canadian Patrol Frigates and Tribal Class Update and Modernization major Crown projects.

19.84 Since the Science and Technology Contracting-out Policy encourages the fullest



In the early 1970s, the concept of the Shipborne Integrated Communication System (SHINCOM) was developed. A point-to-point communications system, SHINCOM would be faster, more effective and less costly than systems fitted on warships of the day. The system is now being used in the Canadian Patrol Frigates and in the Canadian Destroyers currently being modernized (see Case 5, paragraphs 19.83 to 19.93)

possible participation by Canadian industry in government sponsored research and development in science and technology, competition for the SHINCOM development contract was limited to domestic suppliers. The contract was won by a supplier in February 1982. It was for a fixed price of $6.3 million, with a delivery date of July 1984. This contract represented an ambitious project for this supplier and a departure from its previous line of business, the production of individual hardware components for avionics and flight instruments.

19.85 The product was delivered in July 1985, a year behind schedule, and was accepted with a list of deficiencies. The supplier had incurred cost overruns and, since this development contract was for a fixed price, had to absorb the extra costs.

19.86 While the supplier was working on the development of the SHINCOM system, the Canadian Patrol Frigates major Crown project started. In 1983, project specifications called for a communications system with features identical to those of the SHINCOM system. In February 1984, before the SHINCOM system development contract was completed, a subcontractor in the Canadian Patrol Frigates project awarded the supplier a fixed price contract for $2.8 million for the engineering of the SHINCOM system. This included production drawings and the design of manufacturing methods and test procedures. Delivery was expected for August 1985. Five years later it was still not complete; some system documentation had to be revised before the client department accepted it. Again the supplier had to incur unspecified costs exceeding the value of the contract.

With the development and engineering contracts not completed, a subcontractor awarded another fixed price production contract to the supplier.

19.87 In July 1986, with the development contract and the engineering contracts not completed, a subcontractor in the Canadian Patrol Frigates project awarded another fixed price contract for $24 million to the supplier for the production of six SHINCOM systems. The expected delivery date for the first system was March 1988; it was delivered in November 1989 with an agreed-on deficiency list. It has now been installed and is functioning, although there are still deficiencies. The supplier's estimated loss on this contract alone amounted to $18 million.

19.88 Subsequently the supplier obtained three more fixed price production contracts. One of these was for the production of four SHINCOM systems for the Tribal Class Destroyer Update and Modernization major Crown project and was awarded by the project prime contractor. Another, awarded directly by DSS, was for 14 compact versions of the SHINCOM system for retrofit to smaller Canadian warships. The third, awarded by the subcontractor in the Canadian Patrol Frigates project, was for production of six more SHINCOM systems.

19.89 With a full order book, but somewhat limited by its capital base and size, the supplier began to look for a partner. In 1988, it was bought 100 percent by a foreign company; in 1989, the new parent company was taken over by another foreign company. In September 1989, the new management reviewed all contracts. Cost overruns on SHINCOM and other contracts, along with changes in accounting policies, had resulted in a net loss of $72 million.

19.90 In late 1989, the new management examined the situation and held meetings with government officials. Management had determined that $40 million was needed above the agreed contract prices to complete the work in progress on government-related contracts. It also asked for a relaxation of the SHINCOM specifications. At the time, the new owner was considering various options.

19.91 In April 1990, the supplier went into bankruptcy. One of the contributing factors was the cost overruns on SHINCOM contracts. The appointed trustee entered into an agreement with DSS to continue limited work on various contracts. It took nearly six months before the bulk of its assets were sold to another company in October 1990. DSS then entered into a cost reimbursable contract with the new owner to identify what was required to fix SHINCOM systems deficiencies, complete some of the systems in progress and prepare a plan and cost estimate for completing the rest of the systems. DSS is planning to have the new owner complete the remaining work on a fixed price contract. The government will pay the remaining costs for SHINCOM system work beyond the amounts in the contracts between the supplier and the Canadian Patrol Frigates and Tribal Class Destroyer Update and Modernization project contractors.

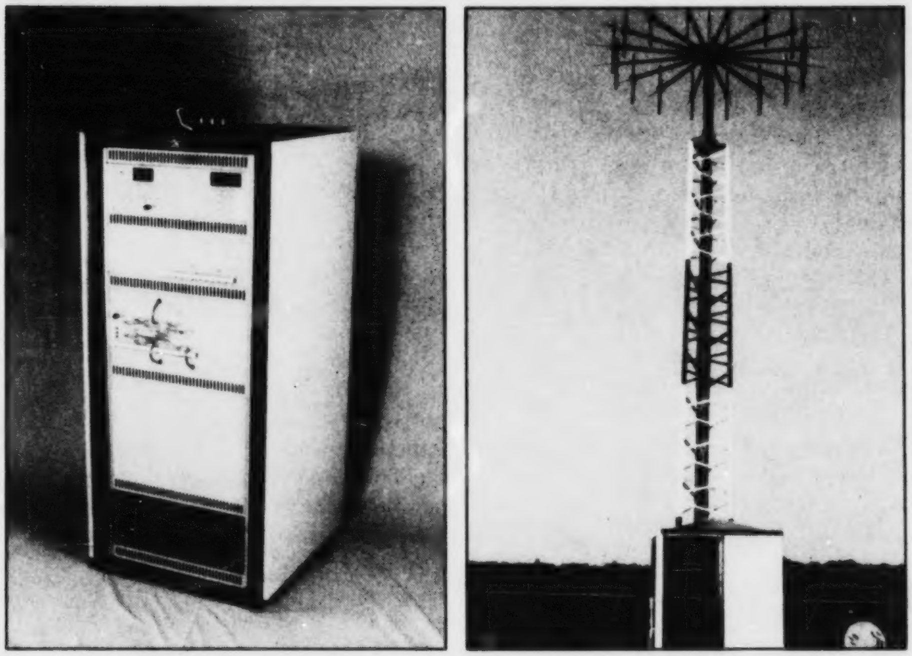
19.92 Our analysis indicated that:

- When the development contract for the SHINCOM system was awarded to this supplier, the need to meet the shipbuilding and refit schedules of the two major Crown projects left too little time to allow for the orderly development of the system.
- A simple, fixed price contract for the development of a unique and complex system did not provide an arrangement that was flexible enough to allow for coping with the design and other problems that had to be resolved before the engineering and production activities could begin.

19.93 Subsequent to our audit, a representative of the supplier reported to us that dealing simultaneously with more than one prime contractor for a common system created, in his opinion, problems for the supplier's internal program management system. We did not verify this opinion.

Case 6. Procurement of Direction-finding Equipment for Airports

19.94 In 1985 the Procurement Review Committee recommended that Canadian sources of supply be asked for proposals, which provided Canadian industrial benefits, for the acquisition of direction-finding equipment for the Department of Transport.



The Procurement Review Committee at DSS recommended that Canadian sources of supply be asked for proposals which provided Canadian industrial benefits, for the acquisition of direction-finding equipment for the Department of Transport (see Case 6, paragraphs 19.94 to 19.98).

19.95 Some of the development work had already been completed by the Department of Transport, but the successful supplier would have to complete work on the design and bring it to the production stage. A proposal from a domestic supplier containing the lowest bid — for $1.8 million — the lowest predictable life-cycle costs and the highest Canadian content, was selected as the winning bid.

19.96 However, the supplier, at that time, had limited prior experience with this type of equipment. Because of this, and because the contract involved considerable development work, DSS considered the risks to be high. To minimize these risks, it divided the contract into two parts, the first for completion of the design and production of a prototype system, and the second an option for the production of 20 systems. The option would be exercised only after the first system had successfully passed all design approval tests and operational field trials.

19.97 Tests on the first system revealed that it contained some unacceptable design weaknesses. On the basis of analysis performed at the time, DSS and the Department of Transport extended the delivery date of the prototype, and the Department of Transport also decided to provide the supplier with technical assistance. In early 1988, the supplier delivered an acceptable prototype and the government exercised its option to purchase the 20 remaining systems. The supplier subsequently obtained another contract to provide the Department of Transport with 40 more systems.

The contract was structured so that the development work was completed and approved before production began.

19.98 In this case, the government recognized the risks and took steps to minimize them. The contract was structured so that the development work was completed and approved before production began. The client department provided additional technical assistance to the supplier when it was experiencing product design difficulties.

Case 7. Procurement of Crash Firefighting and Rescue Vehicles

19.99 In 1986, DSS contracted with two domestic suppliers in two different regions of Canada to provide crash firefighting and rescue vehicles for use at airports operated by the Department of Transport. The contracts were for a total of 68 Rapid Intervention Vehicles costing $22.1 million. The first contract for 34 vehicles was awarded to Supplier A in April 1986, and the second contract for the remaining 34 vehicles was awarded to Supplier B in September 1986.

19.100 DSS and the Department of Transport expressed concerns that Supplier B might not have the necessary capabilities to perform the work. As well, Transport officials had expressed their preference for awarding the entire project to Supplier A, who it was believed had the appropriate expertise.

19.101 In deciding to split the requirement between the two suppliers, the government sought to achieve other objectives; namely, to reduce the risk of late delivery, create a second source of supply, encourage technological development and create additional employment opportunities. As a result of splitting the contract requirement, the total contracted price for all the required vehicles was $22.1 million instead of $20.3 million, the amount originally bid by Supplier A.

19.102 The Treasury Board approved the contract with Supplier B on the condition that:

- prior to the award of the contract, Supplier B have in place engineering expertise and experienced production management staff acceptable to the Minister of DSS;
- the contract with Supplier B contain a clear provision for termination should this expertise and staff not remain in place for the duration of the contract, or should the first production vehicle fail to pass the required tests and inspection; and
- further Treasury Board approval be sought if it was proposed to make advance payments to Supplier B.

19.103 On 10 September 1986 the government entered into a contract with Supplier B. At this time:

- Department of Transport and DSS officials continued to express doubts that Supplier B had the engineering, production or project management expertise to complete the contract satisfactorily;
- Supplier B's performance on a different but related contract for the design and production of certain equipment for the Department of Transport was still in question; and
- a consultant had been hired by DSS in early September 1986 to determine whether Supplier B had the engineering design capability and expertise required for the design, development and manufacture of the required vehicles.

19.104 Eight months after signing, Supplier B advised the government that it could not perform in accordance with the contract and requested that the contract be ended by mutual consent. Under the Termination for Default provisions of the contract, the government could have terminated it 45 days after giving notice to the supplier that it was in default. Instead of applying this provision, the government paid Supplier B $290,000 and terminated the contract. DSS indicated that this payment would allow it to accept a time-limited offer from Supplier A for the production of all units originally assigned to Supplier B.

19.105 In May 1987, Supplier A's initial contract for 34 vehicles was increased to include the entire requirement for 68 vehicles, for a total cost of $21.3 million. This was approximately $1 million higher than Supplier A's initial bid to complete the 68 vehicles.

19.106 Subsequent to our review of this case, Supplier B informed us that, in its opinion, it had the full capability to complete the work and that it had to terminate the contract due to difficulties with government officials at the time. We did not verify this opinion.

19.107 Our analysis indicated that:

- This project involved product development as well as production work. To minimize the contract performance risk in such projects, the project could have been divided into two phases -- the first phase for product and prototype development and the second phase for actual production. The production phase could then have been competed and divided between two suppliers.
- In its quest to achieve industrial and regional development or other related government objectives in the procurement process, the government may decide to award a contract to a supplier who, in the opinion of government officials, might not be able to complete the contract. In such a case, it should decide, before awarding the contract, whether it is prepared to provide the selected supplier with technical assistance, as required and where cost justified, to enable it to successfully perform the contract obligations.

Certain aspects of domestic preference policies are complex to administer and may conflict

19.108 Internal analysis by DSS indicated that the domestic preference policies are, on the whole, complex and time-consuming to administer. It also indicated that suppliers find the application of the Canadian Content Premium Policy and the Canadian Value Added Profit Policy complicated and have complained to DSS about the requirement to provide detailed information on the extent of Canadian and foreign content in their bids. In addition, an internal DSS study, which we verified, concluded that the Canadian Value Added Profit Policy was "not at all effective" and was considered as a small bonus which had no impact on the behaviour of suppliers.

19.109 The complexity of the Priority Groups Policy and its distinction between groups based on the type of supplier, rather than the product supplied, inhibits the efficiency of the procurement process. Also, supplier organizations are increasingly diversified, with both manufacturing and foreign agency operations. Criteria for determining what constitutes manufacturing, and thus inclusion in the first priority group, have varied within DSS.

19.110 Policies may also conflict with each other in some areas. For example, the Area Buy Policy may result in domestic agents located in the regions, who import goods from foreign manufacturers, being given preference over Canadian manufacturers located elsewhere. This conflicts with the Priority Groups Policy, which is intended to give Canadian manufacturers preference.

There is a need for an evaluation of the cost effectiveness of the policy of giving preference to domestic agents

19.111 Since the Priority Groups Policy is designed to give preference to domestic agents over foreign manufacturers, it is important for DSS to establish procedures or guidelines for determining the additional cost to the government, if any, and the value added to the Canadian economy by procurement from domestic agents.

19.112 DSS policies state that, for procurement over $2 million, "when extra costs are involved, it must be demonstrated that the benefits justify the extra cost, and either the benefits would not accrue to the Canadian economy without support or the procurement exploits a strategic opportunity". For procurement under $2 million there is no comparable departmental policy. The policy does state that where, based on the procurement officer's product knowledge and past experience, the prices do not represent fair value to the government, the officer should cancel or reject all bids. This determination should be fully supported in the contract file.

19.113 We were not able to identify, in the DSS system, all contracts issued to preferred domestic agents. In our opinion, such information is vital if DSS is to evaluate the cost effectiveness of this domestic preference policy in contributing to the national objectives of the government.

19.114 In the absence of agent information in the DSS system and to try to estimate the incremental cost to Canada of this preference policy, we examined a judgmental sample of contracts for spare parts valued at $60 million. We selected a product line in which domestic agents, who import their products from foreign sources, seem to be particularly active as suppliers to the Canadian government.

19.115 Our review of the information submitted by the agents and included in the DSS files indicated that the prices paid by DSS to these agents include approximately 16 percent to cover the agents' administrative costs and profits. There is a need for an evaluation of the incremental costs and benefits of applying this domestic preference policy.

19.116 **DSS Initiatives** A review is currently under way by DSS to streamline and rationalize the various domestic preference policies.

19.117 At the time of our audit the Department proposed a new Priority Groups Policy with only two groups; the first is to include Canadian manufactured products or services, and the second all others. The effect of the proposed policy would be to eliminate the practice of giving preference to domestic agents. DSS also proposed the discontinuance of the Canadian Content Premium Policy and the Canadian Value Added Profit Policy.

General Recommendations

19.118 To enhance public confidence in the fairness and accessibility of the government procurement process there should be, where feasible, greater use of competition, one of the cornerstones of government procurement policy.

19.119 Before the government awards procurement contracts to suppliers without competition or with limited competition, for the purposes of industrial and regional development, domestic preference, or other related government objectives, more attention should be given to the following factors to minimize contract performance risks such as cost overruns and delays:

- **assessing the selected suppliers' technical, managerial, and financial capabilities;**
- **providing selected suppliers with the required technical assistance, where cost-justified;**
- **ensuring that the suppliers' estimates of contract cost and time of delivery are realistic, taking into consideration their capabilities;**
- **ensuring that, where feasible, the research and product development portion of procurement projects is satisfactorily completed and tested before the actual engineering and production begin; and**
- **considering the suitability of awarding fixed price contracts for work that involves significant research and development where the specifications are not firm.**

19.120 If the policy of providing preference to domestic agents continues, procedures should be established to evaluate the additional costs and benefits of applying this policy.

19.121 The Department of Industry, Science and Technology should, within its mandate, evaluate the effectiveness of the application of its policies and practices in achieving industrial development through procurement. The scope of the evaluation should be decided by the Department of Industry, Science and Technology and be feasible.

DSS' response: *DSS recognizes that competition is one of the cornerstones of the government procurement policy and is attempting to achieve the objectives of* *competition, fairness and accessibility in support of the objectives of its client departments. The Department has put in place a number of initiatives designed to foster competition such as open bidding and the Advanced Contract Award Notices advertised through the Procurement Opportunities Board and the Government Business Opportunities publication.*

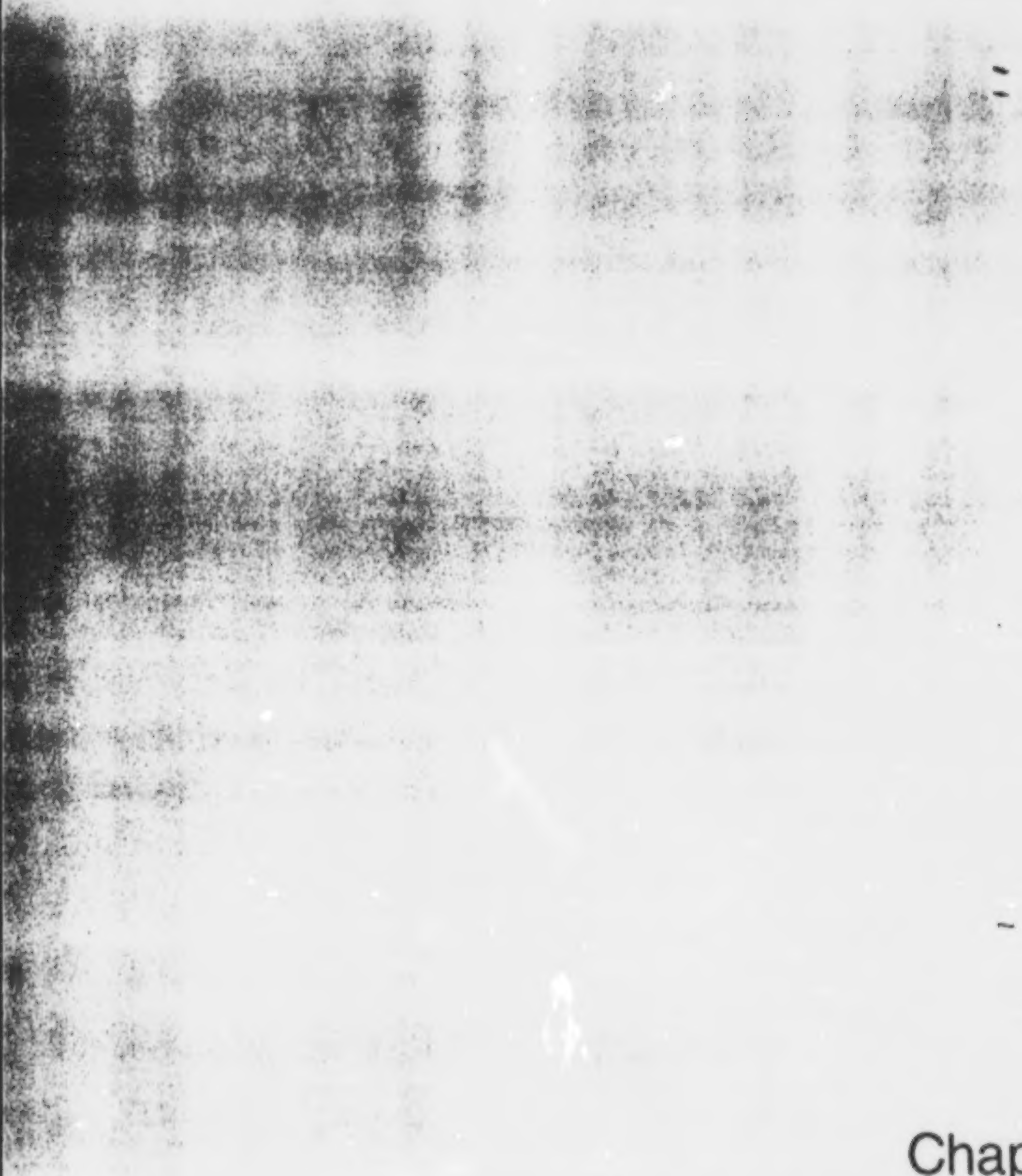
DSS will continue to provide client departments with specialized advice, assistance and services in the contracting area and will ensure that all procurement activities are carried out in accordance with Government contracting regulations and policies.

In conjunction with client departments and other agencies, DSS will continue to minimize contract performance risk by assessing the selected supplier's technical, managerial and financial capabilities, ensuring that supplier's estimates of contract cost and time of delivery are realistic, and selecting the most suitable type of contract particularly when research and development is involved and specifications are not firm. The Department will continue to ensure the optimum approach to contracting is followed when research and product development forms a portion of the work.

As noted by the Auditor General, DSS has undertaken an internal analysis of domestic preference policies. This analysis has resulted in the development of a new simplified priority groups policy. The new policy gives preference to Canadian goods and services rather than making distinctions between the types of suppliers.

***Department of Industry, Science and Technology's response to recommendation contained in paragraph 19.121:** The Department is in agreement with this recommendation.*

***Treasury Board Secretariat's response:** The Treasury Board Secretariat is in the process of reviewing and updating its procurement management policy. One of the objectives of this review is to establish a better framework for the analysis and evaluation of proposals to use procurement as an instrument for industrial and regional development, that will promote the use of procurement in a selective, judicious and cost effective manner. The proposed framework would include criteria for evaluating project performance risks.*



Chapter 20

Department of the Secretary of State
Official Languages and Translation
Translation Bureau

Department of the Secretary of State Official Languages and Translation

Translation Bureau

Main Points

20.1 Since 1985, the Translation Bureau has been greatly affected by staff reduction measures and by the obligation to increase the use of contracting. The amount of work contracted out is expected to reach 50 percent in 1994; from 1986 to 1991, it increased from 20 percent to 42.6 percent. The Translation Bureau is operating in a changing environment at a time when it is redefining its directions and the kind of organization it wants to become (paragraphs 20.15 to 20.37).

20.2 Our calculations indicate that direct production costs of translation in the Department of the Secretary of State are higher than in the private sector – 27.3 cents compared to 18.3 cents. Several factors may explain this variance: productivity, salaries and benefits and the regionalized structure of the Department (20.47 to 20.50).

20.3 Given that the Translation Bureau was not identifying its indirect costs related to translation operations, it was unable to monitor them closely enough to identify potential savings (20.52 to 20.54).

20.4 Our 1984 Report recommended that quantitative production standards be established to monitor translator performance. However, management decided instead to set individual quantitative and qualitative objectives. Although translators at the TR2 level have increased their production by 20 words per hour since 1983, 75 percent of them performed below the benchmark of 200 words per hour. We estimate that, had that standard been reached, annual savings of $1.9 million would have resulted. Moreover, translators have little incentive to produce at their highest possible levels. (20.65 to 20.73).

20.5 The Translation Bureau cannot explain the overall decline in the quality of translations since 1987. Consequently, it cannot take appropriate corrective measures (20.83 to 20.92).

20.6 After more than five years of effort, and with annual operating costs of about $2.5 million, the Department's management information system still does not provide, in a timely manner, the information it needs to manage with due regard to economy and efficiency (20.96 to 20.99 and 20.176 to 20.181).

Main Points (cont'd)

20.7 The absence of an appropriate strategy for human resource management, in an environment of downsizing and of increasing use of contractors, has led to a loss of skills by the Bureau and to changes in duties that may explain the performance level and the decline in quality (20.105 to 20.116).

20.8 Our consultation with employees of the Translation Bureau indicates that the prevailing work climate is poor. Employees have clearly identified negative effects contracting out has on their work, but they are more concerned by the way contracting out is managed than by its use (20.122 to 20.127).

20.9 In the absence of a complete analysis, management was not able to determine the ultimate advantages of contracting out (20.129 to 20.133).

20.10 Since 1988-89, contracting out has resulted in average annual savings of $7.5 million in direct costs. However, this does not take into account the repercussions of contracting out on human resources and on the quality of translation. Better management of operations and human resources would have reduced the negative impacts on the work environment and made the Translation Bureau more efficient (20.137 to 20.141).

20.11 The translator certification process lacks rigour, and the imposition of sanctions on contractors is inequitable (20.151 to 20.154 and 20.160, 20.161).

20.12 The information provided to Parliament in Part III of the Estimates is incomplete (20.187 to 20.190).

Table of Contents

Paragraph

Overview

Mandate of the Department of the Secretary of State and Objective of the Translation Bureau 20.13
Evolution and History of the Mandate 20.15
Key Activities and Resources 20.20

Audit Objective and Scope 20.25

The Environment Since 1985 20.32
Important changes in the Translation Bureau environment since 1985 have created a climate of uncertainty (20.32)

Management of the Translation Bureau 20.38

Translation Costs 20.40
The cost accounting system does not allow the identification of full cost per word translated in-house and contracted out (20.42)
Direct production costs of translation in the Department of the Secretary of State are higher than in the private sector (20.47)
Potential reduction of indirect costs (20.52)
In-house full cost is higher than the market price (20.59)

Performance 20.62
The absence of performance standards makes it impossible for the Translation Bureau to determine whether performance is at an acceptable level of efficiency and to identify the potential for improvement (20.65)

Client Satisfaction and Quality of Texts Translated 20.75
The level of client satisfaction remains high (20.81)
The Translation Bureau cannot explain the overall decline in the quality of translations (20.83)
The Translation Bureau is not able to take appropriate corrective measures (20.89)

Management Information 20.94
The available management information does not allow management to manage with due regard to economy and efficiency (20.96)

Human Resource Management 20.101
The absence of an appropriate strategy for human resource management, in an environment of downsizing and increasing use of contractors, has led to loss of expertise and to changes in duties that may explain the level of productivity achieved and the decline in quality (20.105)

Table of Contents (cont'd)

Paragraph

The Work Climate 20.118
In general, the present work climate in the Translation Bureau is poor (20.122)

Management of Contracting Out

Justification of the Use of Contracting Out: The Costs and Benefits 20.129
The Department of the Secretary of State has carried out no analysis to identify the costs and benefits, as well as the advantages and disadvantages for its human resources and its organization, of contracting out while maintaining translation quality (20.132)

Savings from Contracting Out 20.135
Contracting out has resulted in average annual savings of $7.5 million, in direct costs, for the last three years (20.137)
In the final analysis, has contracting out been advantageous? (20.138)
Outlook: economic factors to be considered (20.142)

Certification and the Inventory of Translation Contractors 20.148
The certification process lacks rigour (20.151)
During 1990, only 11 of the 24 cases where contractors failed at least four times to comply with deadlines were referred to the Certification Committee (20.159)
The Certification Committee imposes sanctions in an inequitable manner (20.160)
The Certification Committee is very lenient toward contractors who do not comply with contract requirements (20.162)
The Department of the Secretary of State does not have information essential to the efficient management of contracting out (20.166)

Planning and Implementation of the Management Information System 20.170
The Operational Information System does not meet user needs (20.176)

Information to Parliament 20.183
Significant performance indicators were not disclosed (20.185)
Incomplete information (20.187)

Program Evaluation 20.192

Table of Contents (cont'd)

Exhibits

20.1 Organization of the Department of the Secretary of State
20.2 Amounts in Dollars and Person-years, 1990-91
20.3 External Events that Have Had an Impact on Translation Bureau Operations Since 1985
20.4 Distribution of Words Translated in Official Languages
20.5 Elements of In-house and Contract Costs
20.6 Direct Production Cost Comparison, Department of the Secretary of State Versus the Private Sector, 1990-91
20.7 Summary of Cost per Word for In-house Translation
20.8 Distribution by Level, of Translators Working in Official Languages Translation, March 1991
20.9 Overall Satisfaction Expressed by Clients, 1990-91
20.10 Evaluation of the Quality of Translations in Official Languages, by Level
20.11 Summary of Official Languages Translators Separations and Hirings, from 1985-86 to 1990-91
20.12 Breakdown of Duties of Translators Working in Official Languages Translation
20.13 Breakdown of Duties of Support Staff Working in Official Languages Translation
20.14 Work Climate Perception, May 1991
20.15 Perception of the Evolution of the Work Climate Since 1988
20.16 Criteria to Be Used in Make-or-buy Decisions
20.17 Direct Costs Savings Due to Contracting Out

Department of the Secretary of State Official Languages and Translation

Translation Bureau

Overview

Mandate of the Department of the Secretary of State and Objective of the Translation Bureau

20.13 The mandate of the Department of the Secretary of State is to foster a sense of belonging to Canada, to assist Canadians in understanding and celebrating their identity and to increase, in one official language or the other, opportunities for the enjoyment of our country's educational, social, economic, political and cultural resources.

20.14 As stated in Part III of the Estimates for the Department of the Secretary of State, the objective of the translation activity is "to provide translation and interpretation services and to standardize terminology for Parliament, and federal departments and agencies, in order to enable the federal government to communicate in the two official languages".

Evolution and History of the Mandate

The Translation Bureau has always played a leadership role in the field of translation and linguistics.

20.15 The Translation Bureau Act of 1934 placed the Translation Bureau under the aegis of the Department of the Secretary of State. In 1987 an amendment to this Act added to the Bureau's mandate the provision of interpretation services, sign language interpretation and terminology.

20.16 From 1939 to 1965 the Translation Bureau faced a gradual increase in the demand for translation services. When the Official Languages Act (1969) became law, new needs and increasing demands compelled the Bureau to intensify its recruiting efforts and extend its operations to regional offices, particularly in Quebec.

20.17 As a result, from 1969 to 1974 the increase in the volume of translation was spectacular. However, from 1985 to 1991 the total number of words translated, including multilingual translation and regional operations, increased from 290 to 313 million words, or by 8 percent in six years – a relatively weak growth rate. The Department is forecasting a demand for 324 million words by 1993-94.

20.18 In 1982 Treasury Board policy made the Translation Bureau a common services agency. All departments and agencies listed in Appendices I and II of the Financial Administration Act were thereby compelled to use the Translation Bureau for all translation services.

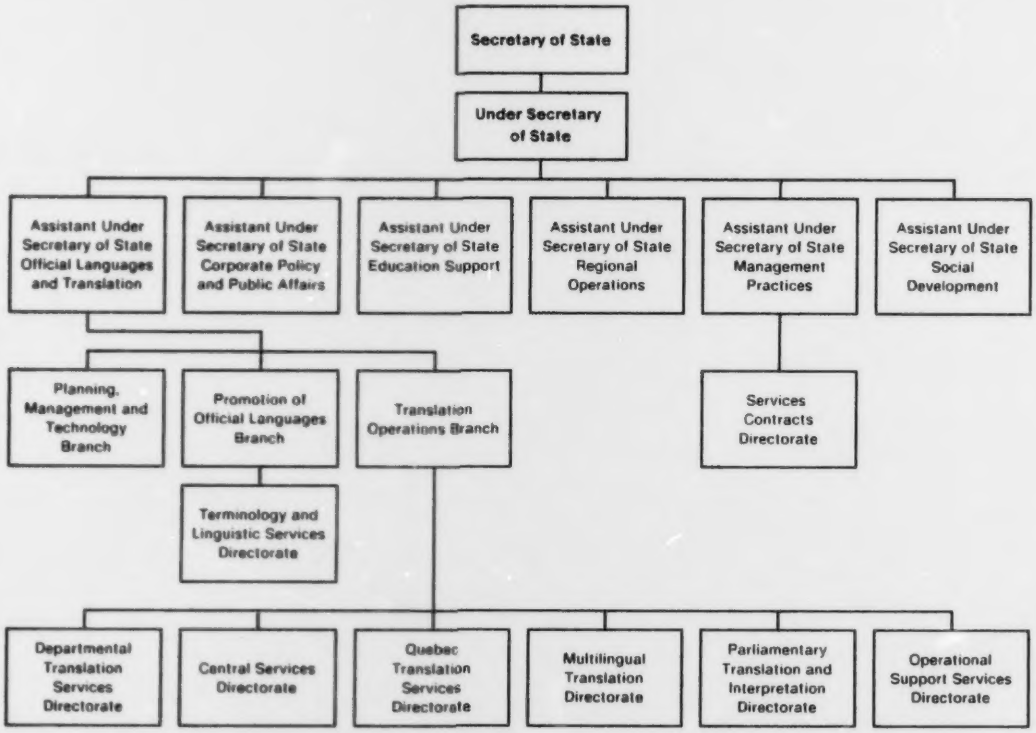
20.19 The Translation Bureau has always played a leadership role in the field of translation and linguistics. It has had, and still has, a considerable influence on the translation profession and on the development of the translation industry – an influence that serves to maintain high standards of quality for translations in Canada.

Key Activities and Resources

20.20 Exhibit 20.1 illustrates the departmental activities, carried out in a structure of six sectors. The functions described in the Translation Bureau Act are delegated to the Official Languages and

Exhibit 20.1

ORGANIZATION OF THE DEPARTMENT OF THE SECRETARY OF STATE
as of 31 March 1991


Secretary of State
Under Secretary of State
Assistant Under Secretary of State Official Languages and Translation
Assistant Under Secretary of State Corporate Policy and Public Affairs
Assistant Under Secretary of State Education Support
Assistant Under Secretary of State Regional Operations
Assistant Under Secretary of State Management Practices
Assistant Under Secretary of State Social Development
Planning, Management and Technology Branch
Promotion of Official Languages Branch
Translation Operations Branch
Services Contracts Directorate
Terminology and Linguistic Services Directorate
Departmental Translation Services Directorate
Central Services Directorate
Quebec Translation Services Directorate
Multilingual Translation Directorate
Parliamentary Translation and Interpretation Directorate
Operational Support Services Directorate

Translation Sector and to Regional Offices. The Official Languages and Translation Sector includes Translation Operations, Terminology and Linguistic Services, and Planning, Management and Technology (also called Administration and Special Projects).

20.21 In 1990-91, of the total number of words translated (313 million, as indicated in paragraph 20.17), 42.6 percent were contracted out to the private sector.

20.22 Translation Operations is divided into six directorates of which the largest, the Departmental Translation Services Directorate, has 27 work units. These units, which comprise 52 percent of the person-years in Official Languages Translation Operations, are located in government departments and agencies in the National Capital Region and are responsible for approximately 60 percent of the volume of translation into official languages. In January 1991, 16 of the 27 units were already contracting out more than 50 percent of their workload.

20.23 As can be seen in Exhibit 20.2, translation expenditures amounted to approximately $108.5 million in 1990-91 and used 1,252 person-years. These figures do not include regional translation operations, estimated at about $4.5 million and 96 person-years.

20.24 The terminology service facilitates research work for numerous users, particularly translators, interpreters and writers in the public service, as well as translation contractors and the general public. The Planning, Management and Technology Directorate is mainly responsible for providing operational support services.

Audit Objective and Scope

20.25 The general objective of our audit was to determine whether Translation Bureau activities were managed with due regard to economy and efficiency and whether appropriate procedures were in place to evaluate and report on effectiveness.

20.26 We examined the management of the Bureau, taking into account the activities that are contracted out. Contracting out plays an increasingly significant role in translation operations, resulting in changes that impact on the organization and on the optimization of its resources. We examined the most significant aspects of the management of the Translation Bureau: costs; operational effectiveness in terms of overall productivity and translators' performance; and results measured in terms of client satisfaction and quality of translation. We also examined management information and human resources management. In addition, we looked into the work climate prevailing in the spring of 1991.

20.27 In examining the management of contracting out, we paid particular attention to its justification, the savings it has made possible, and the certification and inventory of contractors. In addition, we reviewed the planning and implementation of the management information system. Finally, we analyzed the information contained in Part III of the Estimates and the program evaluation completed by the Department of the Secretary of State in 1989.

20.28 Our audit focussed on official languages translation because it accounts for approximately 81 percent of the human resources of the Official Languages and Translation Sector (excluding Promotion of Official Languages). Moreover, it is this sector that has seen the most significant increase in contracting out since 1985. Where data permitted, we carried out analyses covering the period 1985-86 to 1990-91.

Exhibit 20.2

DEPARTMENT OF THE SECRETARY OF STATE AMOUNTS IN DOLLARS AND PERSON-YEARS 1990-91

	ACTUAL	
	Person-Years	**$ Thousands**
VOTES		
1 Operating expenditures	2,535	197,669
5 Grants and contributions		367,262
Statutory appropriations		2,324,270
TOTAL, DEPARTMENT OF THE SECRETARY OF STATE	2,535	2,889,201
RESOURCES ALLOCATED TO TRANSLATION		
Translation Operations	1,066	88,150
Terminology and Linguistic Services	130	7,676
Administration and Special Projects	56	12,709
TOTAL RESOURCES ALLOCATED TO TRANSLATION	1,252	108,535

20.29 In view of the smaller scope of their operations, our audit did not cover the activities of Regional Operations, Interpretation, the Multilingual Directorate, and Terminology and Linguistic Services. However, in calculating costs, we included the activities of Regional Operations and the Multilingual Directorate.

20.30 We interviewed management of Translation Operations, and staff at various levels of the organization. We also had extensive discussions with managers of translation services in a number of quasi-public and private organizations, as well as with contractors who act as suppliers to the Translation Bureau.

20.31 We examined such internal audit reports, reports of studies relating to the Translation Bureau and documents dealing with Bureau activities as we deemed necessary.

The Environment Since 1985

Important changes in the Translation Bureau environment since 1985 have created a climate of uncertainty

20.32 Exhibit 20.3 describes four external events that have had a bearing on Translation Bureau operations since 1985. These events have significantly altered the operational framework in which the Bureau has evolved, and have raised several questions about what kind of organization it will become.

> *The Bureau finds itself in a situation where it contracts out over 40 percent of its operations.*

20.33 In 1991, the Bureau finds itself in a situation where it contracts out over 40 percent of its operations. Moreover, pilot projects are under way to eventually permit departments to choose between the Translation Bureau and the private sector when they need translation services. The Bureau will thus have to give increasing consideration to the private sector's performance. This is an important turnabout since, for about 15 years, until 1985, the private sector served as a safety valve allowing the Bureau to handle a surplus of work. Since 1985 the private sector has been considered a partner in the achievement of Bureau objectives. Today, the private sector presence demands that the Bureau develop a concerted strategy for defining its goals and the means it will use to achieve them.

20.34 In March 1990, to identify the means of adjusting its resources and operations to Treasury Board requirements, the Translation Operations Branch created a task force called Strategies 1991-94. Ten sub-working-groups formulated important recommendations for maintaining quality, streamlining procedures, and training staff on new methods. Some of these have been implemented. As of July 1991, however, implementation of most recommendations was still at the planning stage and remained dependent on available resources.

20.35 From 1985 to 1991, there were several changes in official languages translation operations affecting workloads and resources. On the one hand, annual fluctuations aside, the volume of translation in official languages alone remained static at around 250 million words. On the other hand, again in official languages alone, the Bureau was cut by 307 person-years, a decrease of 23 percent.

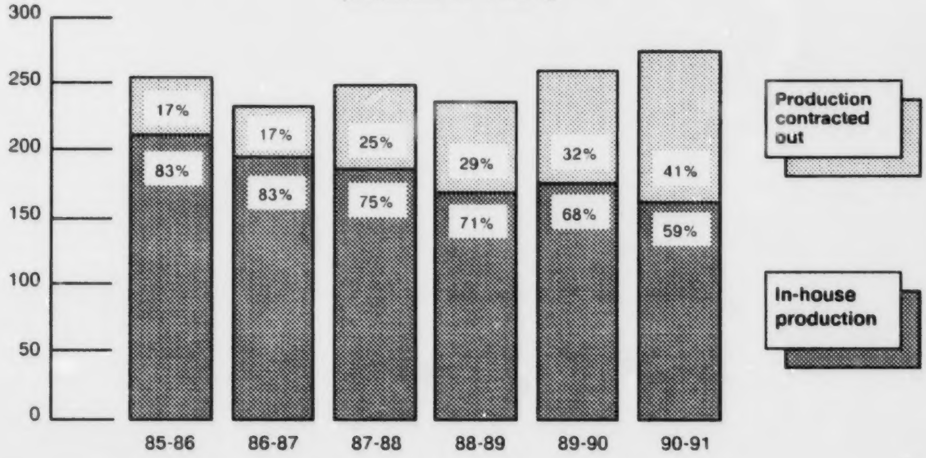
Exhibit 20.3

EXTERNAL EVENTS THAT HAVE HAD AN IMPACT ON
TRANSLATION BUREAU OPERATIONS SINCE 1985

October 1985	The Bureau implements a five-year staff reduction plan. This reduction must be compensated for by an increase in the use of contracting out.
December 1989	The Treasury Board asks the Department of the Secretary of State to increase the volume of translation contracted out from 35 percent to 50 percent and, at the same time, to reduce the staff of the Bureau by about 80 person-years by 1993-94, while maintaining quality standards.
November 1990	The White Paper on "Public Service 2000" recommends allowing departments direct access to the private sector for translation services.
March 1991	The Bureau proceeds with an additional reduction of 65 person-years to implement the constraints outlined in the 1991 federal budget.

Exhibit 20.4

DISTRIBUTION OF WORDS TRANSLATED IN OFFICIAL LANGUAGES (1)
(millions of words)



(1) Does not include Regional Operations translation

20.36 The use of contracting out was in line with a government objective to realign resources between the public and private sectors, and was intended to result in savings. In the Translation Bureau, contracting out compensated for the loss of person-years. Exhibit 20.4 shows the extent to which contracting out for official languages translation has consistently increased since 1985-86. At that time the private sector produced 44.4 million words, whereas today its market share is 113.7 million words. So in 1990-91, 41 percent of official languages translation was contracted out. Annual expenditures for translation contracts have risen from $6.4 million to $21.6 million over the last six years.

20.37 The Translation Bureau is operating in a changing environment even as it tries to redefine the type of organization it wants to become, and its future is uncertain. We took these factors into account during our audit.

Management of the Translation Bureau

20.38 The management of operations requires information on cost and performance. As we indicated in paragraph 8.99 of the special study on Efficiency in Government published in our 1990 Report, cost and performance information "will allow managers to set performance standards, monitor results, and analyze variances, which helps in identifying potential improvements. Such information is critical to any accountability process where program managers are expected to provide an acceptable level of service at the lowest possible cost."

20.39 Results in translation are obtained largely through the use of human resources. The efficiency of the Bureau is therefore based on meeting appropriate translator performance standards with consideration to the quality of the product.

Translation Costs

20.40 For a service organization such as the Translation Bureau, the cost of an output – words translated, in this case – is a significant indicator of performance. A good cost system provides the costs of production, both direct and indirect, and allows for their monitoring at various level of responsibility.

20.41 An explanation of some terms used in the following paragraphs may be helpful here. **Direct costs** are those most directly allocated to an output, without additional computations. **Indirect costs** are not easily linked to an output; they are added to direct costs through various allocation formulas to arrive at the **full cost**. To find the unit cost, the total cost is divided by the number of words translated. Exhibit 20.5 shows the elements that make up in-house and contract costs.

The cost accounting system does not allow the identification of full cost per word translated in-house and contracted out

20.42 In paragraphs 14.12 and 14.13 of our 1984 Report chapter on the Translation Bureau, we recommended the implementation of an appropriate cost accounting system to allow the Bureau to analyze the respective costs and benefits of using in-house resources or private sector contractors. This system also was to facilitate the development of a strategy for achieving the Bureau's objectives in the most economical manner possible. A June 1984 independent study, as well as internal studies, have also stressed the need for the Translation Bureau to develop such a cost system, to allow it to determine such things as the optimum threshold for contracting out.

20.43 Since 1985, the Translation Bureau has developed a cost accounting system based mainly on the direct cost per word translated. We evaluated the methodology the system uses and identified three main deficiencies:

- Except for the costs of computer equipment and software, which represent only a small portion of indirect costs, the method does not take into account indirect costs (see Exhibit 20.5) incurred by the Official Languages and Translation Sector and other sectors of the Department of the Secretary of State that provide support services.

- The cost per word translated on contract adds, to the amount paid to contractors, certain other costs incurred by the Department of the Secretary of State for contract management. Yet it does not include the costs for certain services provided free of charge to contractors, such as photocopies, access to the library and, in some cases, an office.

- The present cost accounting system does not provide, on a monthly basis, information on the direct costs per word translated in-house for the whole of the Translation Bureau, even though such information is available from detailed reports on each responsibility centre.

20.44 We analyzed the methodology in detail and proposed some changes, specifically in the allocation of indirect costs. Based on the results of these analyses and in co-operation with the Department's Finance Branch, we recalculated the cost per word for the last three years. With respect to indirect costs per word translated, we agree with the Department that monthly monitoring is not necessary, given the present nature and use of this information. However, we are of the opinion that quarterly monitoring is required. Monthly monitoring of the direct cost per word translated, on the other hand, is important for cost control, performance measurement and decision-making purposes.

20.45 We thus concluded that, as of January 1991, the cost accounting system of the Department of the Secretary of State was not providing management with complete information on the cost per word. In the interest of value for money and sound decision making, it is imperative that the cost accounting system calculate accurately and completely the cost per word translated, both in-house and contracted out. In July 1991, departmental officials informed us that they were in the process of modifying the system.

Exhibit 20.5

ELEMENTS OF IN-HOUSE AND CONTRACT COSTS

IN-HOUSE	CONTRACTED OUT
Direct costs: Salaries Benefits Other direct operating costs	**Direct costs:** Price paid to contractors Direct cost of managing contracts and of services provided free of charge to contractors
+ Indirect costs: Finance Personnel Informatics Planning and control Office space Equipment Other	**+ Indirect costs:** Finance Records management Indirect costs of contract management and of services provided free of charge to contractors Other
= Full cost	**= Full cost**

20.46 In modifying its cost accounting system, the Department of the Secretary of State should:

- **amend its method of determining the cost per word translated, both in-house and contracted out, to determine the full cost and thus to better manage its resources; and**
- **amend the cost accounting system so that it will provide management, on a monthly basis, with information on the direct cost per word translated for the organization as a whole.**

Department's response: *Agreed. The Department of the Secretary of State changed its cost determination method in July 1991 and, as of that date, knows the full cost. However, it will change its system at the beginning of 1992-93 to determine the direct costs more frequently.*

Direct production costs of translation in the Department of the Secretary of State are higher than in the private sector

20.47 The price paid to contractors per word translated includes three elements: direct costs, overhead and a profit margin. These three elements are an integral component of any viable business, regardless of its size and its legal and operational structure.

20.48 Exhibit 20.6 compares the direct production cost per word translated in the Department of the Secretary of State to the cost in the private sector. The Department pays contractors, on average, 18.4 cents per word translated. To make a fair and equitable comparison, we estimated the direct production cost in the private sector. We considered the average price of 18.4 cents paid to contractors to include 4 cents for their overhead and profit margin, which leaves an amount of 14.4 cents in direct production costs. This estimate is based on our discussions with several contractors and we consider it reasonable. In other words, this amount of 14.4 cents represents what it costs per word in the private sector to translate for the Department of the Secretary of State. However, to make a fair comparison, 3.9 cents must be added for direct costs of activities that the Department must carry out to manage contracting. Those functions are already included in the cost per word translated in-house.

> *The direct production cost per word translated in the Translation Bureau is 27.3 cents, compared to 18.3 cents in the private sector.*

20.49 Exhibit 20.6 indicates that the direct production cost per word translated in the Translation Bureau is 27.3 cents, compared to 18.3 cents in the private sector. We note, however, that the Bureau's computer-assisted translation allowed it to increase its overall efficiency and reduce the direct cost per word translated in-house, for 1990-91, from 29.9 cents (Exhibit 20.17) to 27.3 cents (Exhibit 20.6).

20.50 Although the Bureau did not attempt to analyze these differences, several factors may explain this cost variance:

- the level of productivity in the Translation Bureau compared with that in the private sector;
- respective salaries and benefits; and
- the regional structure of the Department of the Secretary of State .

20.51 The Department of the Secretary of State should take the necessary measures to reduce the direct production cost per word translated in-house.

Department's response: *Agreed. The Department of the Secretary of State will examine the various factors that might explain the gap between internal and external direct production costs in order to determine to what extent the gap can be reduced.*

Exhibit 20.6

DIRECT PRODUCTION COST COMPARISON
Department of the Secretary of State Versus the Private Sector
1990-91

Direct costs per word translated in-house		$0.273
Includes salaries and benefits and other direct costs		
Direct costs per word translated on contract		
Includes Average price paid to contractors	$0.184	
less: Estimate of contractors' overhead and profit	0.040	
equal: Salaries, benefits and other direct costs	0.144	
plus: Direct costs of contract management and services provided free of charge to contractors (1)	$0.039	$0.183
Variance between the Department of the Secretary of State and the private sector based on direct costs only		$0.090

(1) These costs are related to some in-house activities included in the amount of $0.273.

Potential reduction of indirect costs

20.52 Total indirect costs related to translation – those of the Official Languages and Translation Sector as well as those of other sectors of the Department of the Secretary of State – are equivalent to 46 percent of the amount for direct costs.

20.53 While these costs increased from $30 million to $36 million in the last three years, in real dollars they have remained relatively stable. Unlike direct costs, total indirect costs do not vary proportionately to the volume of production. Nevertheless, given the increase in contracting out in the last three years, we expected to find a decrease in indirect costs, or an analysis of the reasons why they had not been reduced.

20.54 In view of the deficiencies mentioned in paragraph 20.43, the Department of the Secretary of State has been unable to identify indirect costs and thus to reduce them, where possible. The Department maintains that, in the short term and during this period of transition, such reductions are not attainable.

20.55 Given that the Department of the Secretary of State will have to give increasing consideration to the private sector's performance, it should identify and monitor its indirect costs to better determine the potential for savings.

Department's response: *Agreed.*

20.56 Full cost. Full cost, as defined in paragraph 20.41, is the sum of direct and indirect costs. It is used mainly for setting prices, since it helps to ensure the recovery of all costs.

20.57 Treasury Board policy on common services advocates the use of full cost to set prices in an environment of revenue dependency. However, for organizations that "compete directly with private sector organizations providing similar services", market price is to be used in cost recovery. If the market price does not allow the organization to recover all its costs, the resulting losses "require analysis to determine their cause and to develop plans to eliminate them." A special operating agency could be called upon to comply with similar terms and conditions in setting prices for its services.

20.58 The Department of the Secretary of State accepted the recommendation of a May 1989 program evaluation that a cost recovery policy be implemented, and is currently reviewing this subject. At the time of our audit, departmental managers informed us that they were investigating a number of possibilities, such as the Bureau's becoming a special operating agency.

Exhibit 20.7

SUMMARY OF COST PER WORD
FOR IN-HOUSE TRANSLATION
(in current dollars)

	1990-91	1989-90	1988-89
Direct costs	$0.273	$0.261	$0.274
Indirect costs	$0.143	$0.126	$0.118
Full cost	$0.416	$0.387	$0.392

In-house full cost is higher than the market price

20.59 Exhibit 20.7 shows the full cost per word translated in-house, which has increased since 1988-89 from 39.2 cents to 41.6 cents.

20.60 However, the market price is harder to determine. The starting point would be the average price currently paid to contractors, 18.4 cents per word (Exhibit 20.6). If we take into consideration the costs of certain services, which would no longer be provided to contractors free of charge in a context of direct competition, the market price would be somewhere between 21 and 24 cents per word.

20.61 If the Translation Bureau relied on charging the market price to recover its costs, it would incur large annual losses. This underlines the importance of our preceding recommendations on identifying where in-house costs could be reduced.

Performance

20.62 As indicated in paragraph 20.38, performance information makes it possible to, among other things, monitor results and analyze differences to identify opportunities for improvement.

20.63 To measure the efficiency of its internal resources, the Translation Bureau uses overall productivity. This measure of performance, expressed as the ratio of production (the number of words translated to person-years used in translation operations), deals exclusively with hours devoted to translation activities and therefore excludes the time spent on the management of contracting out, or on the provision of linguistic advice. For the last three years, 80 percent, on average, of all person-years assigned to translation in official languages has been included in overall productivity calculation. This includes the time of translators, revisors, operations managers and support staff.

20.64 The production of each translator, expressed as the number of words translated, is the main element in the measurement of overall productivity. Although we recognize that translation is an intellectual activity, setting performance standards is nevertheless essential to sound management.

The absence of performance standards makes it impossible for the Translation Bureau to determine whether performance is at an acceptable level of efficiency and to identify the potential for improvement

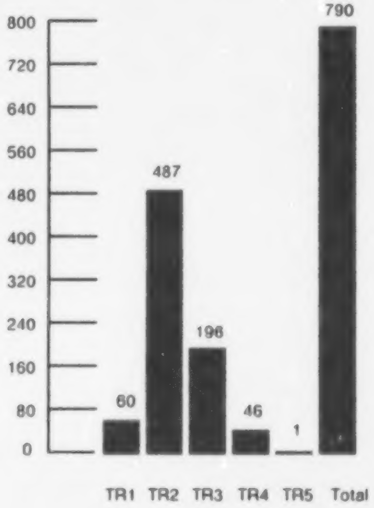
20.65 In the Department of the Secretary of State, the translator group, known as the "TR group", includes translators, interpreters, and terminologists. As of March 1991 the Official Languages and Translation Sector had a complement of 992 in this group, including 790 official languages translators. Exhibit 20.8 shows the distribution of translators by level and outlines their duties.

20.66 We reviewed, for the period 1988-89 to 1990-91, the production of 19 percent of translators at the TR2 level, or 287 translators. These translators were in 10 different work units, selected for their representative size.

20.67 In 1984 we reviewed the performance of translators and recommended in paragraph 14.19 that production standards be established and monitored. In June of that year, an independent study made the same recommendation. In addition, it stressed that several Translation Bureau managers considered standards one of the few objective means of assessing the performance of translators.

Exhibit 20.8

DISTRIBUTION BY LEVEL, OF TRANSLATORS WORKING IN OFFICIAL LANGUAGES TRANSLATION MARCH 1991



Description of levels:

TR 1	Translator in training, all work is revised	
TR 2	Working-level translator, working mostly autonomously, i.e. without revision	
TR 3	This level is subdivided into three main streams	
	TR 3-R	Revisor/Team Leader(140) Revises and supervises work
	TR 3-P	Senior Translator (48) Gives a translation performance superior in quantity and quality
	TR 3-C	Controller (8) Co-ordinates and controls translation contracted out
TR 4	Work Unit Director	
TR 5	Service Director	

20.68 In 1980 management abandoned the idea of a universal standard prescribing the minimum number of words expected at each translator level. Current policy instead provides for the setting of quantitative and qualitative objectives for each translator by his or her immediate supervisor, usually at the time of the annual performance reviews. Moreover, we found that the Bureau has used quantitative standards as advancement criteria for translators.

20.69 Although there are no universal standards in the translation profession, the private sector nevertheless uses various methods of performance measurement. Sometimes a minimum required number of words is specified on employment contracts; bonuses may also be given for work beyond the established threshold but, in most cases, private sector translators are paid by the word.

20.70 We found that the Bureau's translators over the last three years have consistently, on average, translated 180 words per hour, an increase of 20 words per hour since 1982-83. Against the same production capability, used in 1984 as a benchmark to differentiate between translators at the TR1 and TR2 levels for promotion and planning purposes (300,000 words per year or 200 words per hour), we found that 75 percent of our sample of translators at the TR2 level did not meet this level. We also noted that 35 percent of translators in our sample had not had individual quantitative objectives set in their annual performance evaluations, as required by current policy.

20.71 We found that translators in the Department have little incentive to produce their best possible performance. We noted that, between 1985-86 and 1989-90, barely one percent of translators at the TR2 and TR3 levels were promoted. As of 15 July 1991, 73 percent of all translators had reached the maximum of their pay scale. We found no other measures aimed at rewarding good performance. This situation can have a significant negative impact on motivation.

20.72 In our opinion, the absence of performance standards means that management is unable to objectively evaluate whether translators are performing satisfactorily. This makes it difficult for the Bureau to identify the optimal level of productivity for comparison to the actual level reached. Thus, the Bureau does not know whether its improvement in productivity of 1.7 percent per year since 1986-87 represents what it should have achieved. Moreover, it is not able to make the management decisions needed to improve efficiency.

Over the last three years, savings of $1.9 million per year would have been produced if translators at the TR2 level had translated 20 additional words per hour, achieving the level of performance expected in 1984.

20.73 Translators' performance also has a marked impact on in- house costs of production, and optimizing it would result in substantial savings. Based on our sample, if all TR2 level translators had achieved a performance level of 200 words per hour while assigned to translation duties, we estimate that, from 1988-89 to 1990-91, an average of 10.6 million additional words per year would have been translated in-house. This would have produced annual savings of $1.9 million for the government.

20.74 To optimize translators' performance, the Translation Bureau should, in consultation and with the participation of employees:

- **establish, by employee group or by sector, standards that would allow it to objectively measure the performance of translators and to plan the Bureau's workload; and**
- **implement measures to recognize and reward those who meet or exceed established performance standards.**

Department's response: *The Translation Bureau agrees with the need to measure translators' performance objectively and plan the volume of work. The Translation Bureau is studying the possibility of setting productivity standards that would reflect the nature of the work and its quantifiable and/or measurable aspects.*

The Bureau has already taken a series of measures to recognize employee contributions (meetings, awarding of plaques, publication of *achievements and so forth), uses existing programs such as Suggestion Awards and, with Personnel, has studied a series of possible additional measures that conform to the recommendations of PS 2000.*

Client Satisfaction and Quality of Texts Translated

20.75 An important objective of the Translation Bureau is to ensure a high level of translation quality and service to clients. Thus, the Bureau has defined important indicators which are used to measure client satisfaction and quality of translations.

20.76 To achieve this objective, the Translation Bureau in 1986 implemented a "Continuous Evaluation System". It provides for the evaluation of client satisfaction and quality of translations from a sample of approximately 1,600 texts, and for quarterly reports to management on the results.

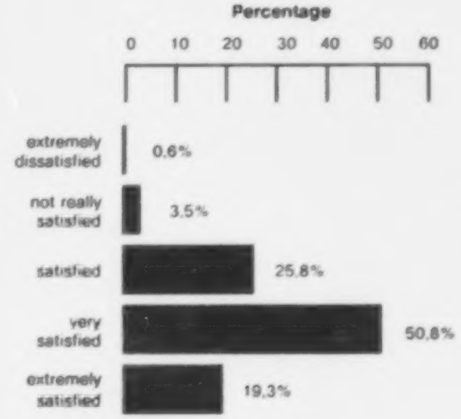
20.77 Each month, a questionnaire is attached to a number of translated texts upon their return to the originator, asking for an indication of the degree of satisfaction with various aspects of translation services. From a sample of these translated texts, the Linguistics Services Directorate evaluates their quality and, based on the standard in use called SICAL, rates them from A (superior) to D, depending on the number of major and minor errors detected.

20.78 We reviewed the results of surveys of client satisfaction and quality of translation for the last five years. We also reviewed the two reports of the Government Consulting Group commissioned by the Department. The first, in February 1990, was an evaluation of the Continuous Evaluation System; the second, in February 1991, dealt with the size of the sample required to draw conclusions on the quality of texts from various subgroups.

20.79 This second report recommended a sample size of about 400 texts from each group or subgroup on which conclusions are desired for instance, translations from French to English and translation done in-house or contracted out.

Exhibit 20.9

OVERALL SATISFACTION EXPRESSED BY CLIENTS 1990-91



20.80 We believe that, to evaluate client satisfaction and quality of translation:

- surveys should be carried out in accordance with recognized sampling methods; and
- evaluations should be objective and based on reasonable standards and results should be communicated to management in a timely manner.

The level of client satisfaction remains high

20.81 The results of the last five years' surveys show that overall client satisfaction remains high. Results from 1990-91, shown in Exhibit 20.9, are representative of those from previous years. It will be noted that 96 percent of respondents described the official languages translation services as satisfactory or better. At the same time, we found that adherence to deadlines has consistently been the element with which clients have expressed the least satisfaction.

20.82 In surveys used to measure client satisfaction, we noted that the exact number of questionnaires sent is not noted. As a result, the Bureau cannot determine the percentage of responses received from clients; the response rate for 1988-89 was estimated at approximately 50 percent. Moreover, it does not follow up with a sample of non-respondents to determine whether their level of satisfaction corresponds to that of respondents. Finally, surveys do not take into account whether texts were translated in-house or were contracted out. Management plans to correct this last situation in 1991-92.

The Translation Bureau cannot explain the overall decline in the quality of translations

20.83 In addition to measuring client satisfaction, the Translation Bureau carries out its own objective evaluation of translated texts in order to maintain high standards. The Bureau aspires to deliver texts that are faithfully translated, grammatically correct and at levels A and B of the SICAL standard. Exhibit 20.10 shows that, from 1987-88, the overall quality of translated texts began to decline. Indeed, the proportion of texts at levels A and B went from 71 to 54 percent, a 24 percent decrease, between 1987-88 and 1989-90. At the time of this report, in July 1991, results of the 1990-91 survey were not yet available.

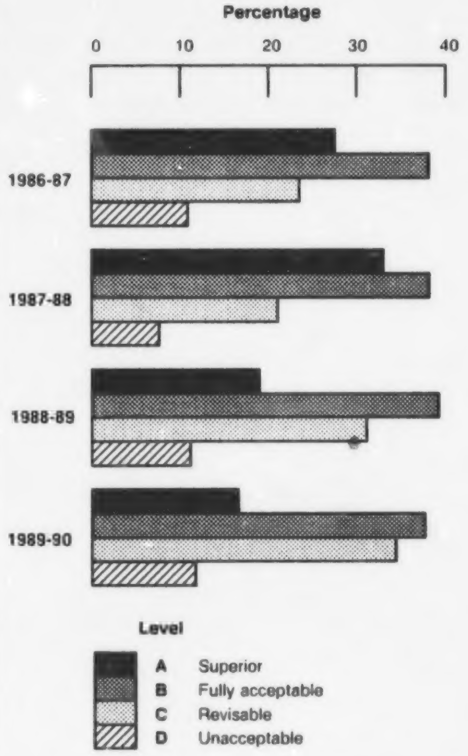
20.84 Surveys of translation quality give only general results that cannot explain the level of quality attained. Three main factors explain this: the objectives, the size of the samples, and the methodology used.

20.85 The objectives of the Continuous Evaluation System are not designed to provide management with data that are sufficiently comprehensive to enable it to analyze the results.

20.86 In 1988-89 the Translation Bureau used a sample of 407 texts and in 1989-90 a sample of 377 texts to evaluate the quality of translations. Such a small sample does not make it possible to attribute the decline in quality to specific significant factors. For example, the Bureau cannot conclude whether the decline is attributable to in-house or contracted work. To do so, the sampling method would have to take into account factors that could explain the results. The Bureau is also unable to precisely link the decline in quality to other significant factors, such as the nature of texts, the skills in the organization, the work climate or the increasing amount of translation done autonomously, that is, not subjected to supervisory review.

Exhibit 20.10

EVALUATION OF THE QUALITY OF TRANSLATIONS IN OFFICIAL LANGUAGES, BY LEVEL



20.87 Moreover, we noted that, from 1986-87 to 1989-90, the size of the sample for purposes of quality evaluation went from 712 to 377 texts, a decrease of 47 percent. During the same period, the number of words translated in official languages increased by 11 percent.

20.88 With respect to the methodology, we noted that quality evaluation currently is done without taking into account the expected level of quality related to the SICAL standard, established by the manager, based on the nature of the text and other factors.

The Translation Bureau is not able to take appropriate corrective measures

20.89 Although the system provides for quarterly reports, the results of surveys are analyzed only once a year, several months after the end of the fiscal year. Consequently, besides the fact that only limited analysis of the surveys is possible, reports are not available in a timely manner and do not allow for identification of the possible causes of any lack of efficiency or decline in quality.

20.90 We also noted that the Department of the Secretary of State has not determined the level of satisfaction and of quality below which corrective measures are to be taken. Analysis is limited to a comparison with previous years' results.

20.91 The February 1990 report of the Government Consulting Group noted that, in general, the method for surveying client satisfaction was appropriate; but it voiced reservations about the low rate of response and the limited use of the survey. It also underlined the lack of monitoring by management of compliance with system guidelines. The survey of quality noted the same weaknesses as those mentioned in paragraphs 20.83 to 20.89.

20.92 In our opinion, the Continuous Evaluation System as implemented does not provide management with the information it needs to explain the level of satisfaction and of quality achieved and to take appropriate measures to improve them.

20.93 The Department of the Secretary of State should:

- **review the objectives and methodology of the Continuous Evaluation System;**
- **carry out a cost-benefit analysis to determine the factors to be taken into account in the choice of a sampling method; for instance, the nature of texts, the expertise required, and deadlines;**
- **segregate the results of the surveys of client satisfaction and quality into the two most significant categories, namely, texts translated in-house and those translated by contractors;**
- **determine the level of satisfaction and of quality below which corrective measures should be taken; and**
- **carry out quarterly analysis of survey results and report the results of these surveys promptly to management.**

Department's response: *Agreed. The Bureau has already recognized the need to review the goals and methodology of the Continuous Evaluation System. Following the presentation of the report on the review of the Continuous Evaluation System (February 1990), the Bureau undertook in the spring of 1991 to examine the statistical and linguistic aspects of the system. With the results of this review, expected in 1992, the Bureau will be able to follow up on the recommendations.*

Management Information

20.94 Management should have at its disposal timely and relevant information to manage costs and performance.

20.95 Cost data, performance indicators, and operational data are the three main sources of information used in the management of translation operations. Computer systems of the Department of the Secretary of State record most of the data related to the cost per word and the quality of texts translated. They also accumulate operational data such as volume of work, distribution of hours of work, nature of texts, deadlines, work not subjected to revision, etc. These data make it possible to establish the direct cost per word translated and to ascertain the overall results of quality surveys. They are also used to measure productivity and provide significant information on translation operations.

The available management information does not allow management to manage with due regard to economy and efficiency

20.96 Most cost and operational data are available only at the work unit level. They cannot easily and rapidly be consolidated for timely access by management.

20.97 The Bureau's performance indicators, such as overall productivity, quality of texts and client satisfaction, are general in nature. Data that could explain the results achieved are neither collected nor provided to management on a regular basis.

20.98 In the present circumstances, the wealth of data available cannot be used effectively and regularly to highlight the causes of and factors influencing differences in cost, performance, productivity, and quality between in-house production and translations contracted out. Paragraphs 20.176 to 20.181 outline the deficiencies we identified in the implementation of management information systems.

20.99 In its reports, management has offered several explanations for costs and performance that it is unable to substantiate. Consequently, it cannot take the appropriate measures needed to improve organizational performance.

20.100 The Department of the Secretary of State should put in place the mechanisms necessary to make available to management, in a timely manner, the information it needs to manage costs and performance.

Department's response: *See response to the recommendation at paragraph 20.182.*

Human Resource Management

20.101 Notwithstanding technological advances, translators are essential to the achievement of the federal government's communication objectives, in both official languages. Their skills, commitment and motivation are, therefore, factors of prime importance that must be valued and cultivated.

20.102 Our analyses are based on computerized data gathered by the Department of Supply and Services and on internal studies completed by the Department of the Secretary of State at the time of our audit. They cover the six-year period from 1985-86 to 1990-91.

20.103 Specifically, we analyzed variances in the translator group profile, i.e. group distribution by level, seniority, specialization, and age. At the same time, we reviewed the reasons for separations, absenteeism, and rates of turnover and retention in the organization. Finally, we noted several characteristics of translators who left the Department of the Secretary of State and of those recruited since 1985-86.

An inappropriate management strategy, in an environment of downsizing and increasing use of contractors, has had significant effects on human resources.

20.104 The reduction in staff, coupled with an increase in the use of contractors, created significant changes in the Translation Bureau. Such an environment places special demands on human resource management; for instance, it requires a management philosophy based on a recognition of the value of human resources, a well-defined strategy and action plan, and frequent and timely communication aimed at keeping staff informed of senior management's intentions and at answering concerns. Recognizing competent employees and the importance of their contribution, assessing and rewarding their performance and doing whatever is needed to retain them are recognized as sound principles of human resource management. They help to minimize the negative effects of change and to create a climate conducive to good performance.

The absence of an appropriate strategy for human resource management, in an environment of downsizing and increasing use of contractors, has led to loss of expertise and to changes in duties that may explain the level of productivity achieved and the decline in quality

20.105 Although the Translation Bureau has recognized the importance of its human resources, it has not yet developed a strategy or a policy to manage downsizing, to plan for its future needs and the skills required of its staff. Such a strategy would, among other things, have allowed the Bureau to develop plans to manage the downsizing and to prepare employees for the type of organization which it is becoming. The precise effect that the use of contractors has had on employees has not been determined, and no plans have been developed to deal with it.

20.106 The five-year plan for personnel reduction developed by the Department of the Secretary of State in 1985-86 defined its needs in mainly quantitative terms. Following lay-offs during the first year of the plan's implementation, management considered that the rate of attrition would thereafter accomplish the required reduction in personnel. In December 1990, as part of the Strategies 1991-94 study, a Translation Bureau task force made recommendations aimed at adjusting resources and operations to the new context. In July 1991 the Bureau developed action plans. Today, translators and support staff still do not know the details of the plans and how management intends to implement them, or their role in achieving the Bureau's medium- and long-term objectives. This has had a number of repercussions that we outline below.

20.107 In March 1991 the Department of the Secretary of State had lost 33 percent of the TR group on staff at the start of 1985-86. During this period, 410 employees in the TR group working in the Official Languages and Translation Sector left the Department. This number rises to 475 if separations in March 1991 due to early retirement are included. Consequently, during this period the Department had to recruit 227 TR group employees for the Official Languages and Translation Sector.

20.108 We found that, from 1986-87 to 1990-91, the average rate of turnover was 50 percent higher than in 1984-85, i.e. 7.6 percent for the Sector as a whole. Of 410 translators who left, 50 percent resigned voluntarily. Of these same 410 translators, 85 percent left the federal public service.

20.109 During this period, two factors in particular contributed to the exodus of translators. On the one hand, the Department of the Secretary of State decided to help develop the inventory of contractors, which had not been sufficient to absorb the excess workload; in effect it encouraged its translators to try working as contractors. On the other hand, the private sector held an attraction for the Bureau's good translators, in part because of the assurance of an ample supply of work, piece-work remuneration, and the prospect of concentrating almost exclusively on translation. As of 31 March 1991, at least 34 percent of official languages translators who had left the Translation Bureau were listed in the Department's inventory of contractors.

20.110 Several indicators show that the Translation Bureau has suffered losses of skills that it has not been able to measure accurately. Translators' skills are not recorded and the Bureau is not able to measure its losses. However, there are several indications that the Bureau has lost some of its more experienced translators and has had to replace them with untrained recruits.

20.111 In official languages translation, 50 percent of translators who left had more than 10 year's service; 68 percent were still in the early or middle stages of their careers since they were less than 45 years old. Several of these translators (the number cannot be determined accurately) worked as specialists. Furthermore, the Bureau has had to fill more than half of the positions vacated by experienced translators with recruits in need of training. As shown in Exhibit 20.11, 84 percent of the 208 recruits were at the TR1 level, whereas 82 percent of those who left had been at the TR2 level or higher. Moreover, the Translation Bureau is encountering difficulties in retaining its recruits: almost one-third of the translators hired by the Bureau at the TR2 level or higher left within five years.

20.112 The loss of expertise explains several of the negative repercussions that the Department of the Secretary of State began to experience in March of 1991. For instance, it has left weaknesses in critical areas that, in the medium and long term, will have an impact on costs and cause the organization to lose the economic advantage it once had. Moreover, the departure of so many experienced translators diminishes the quality of supervision that can be provided to trainees. The ensuing intense staffing activities also generate recruiting and training costs. For many years, the Translation Bureau has found it difficult to recruit translators. According to Bureau managers, it usually takes five years of experience in translation to become fully operational. Finally, the inexperience of recruits is likely to have a negative impact on the organization's overall level of productivity and on the average performance of translators.

20.113 Changes in duties mean that translators in the Department of the Secretary of State spend less and less time translating. An analysis of hours and work distribution for official languages translation personnel shows (Exhibit 20.12) that, in 1990-91, translators spent only 58 percent of their time translating – 8 percent less than in 1987-88. Translators now spend three times as much time as in 1987-88 managing contracts, and twice as much providing linguistic advice to their clients. As for support staff, Exhibit 20.13 shows that they spend 9 percent less time typing but 12 times more on activities related to contracting out.

20.114 Moreover, because of the increased volume of work contracted out, in April 1990 the Translation Operations Directorate created the position of controller, responsible for ensuring that contractors comply with the requirements of their contracts, including those

Exhibit 20.11

SUMMARY OF OFFICIAL LANGUAGES TRANSLATORS' SEPARATIONS AND HIRINGS
from 1985-86 to 1990-91

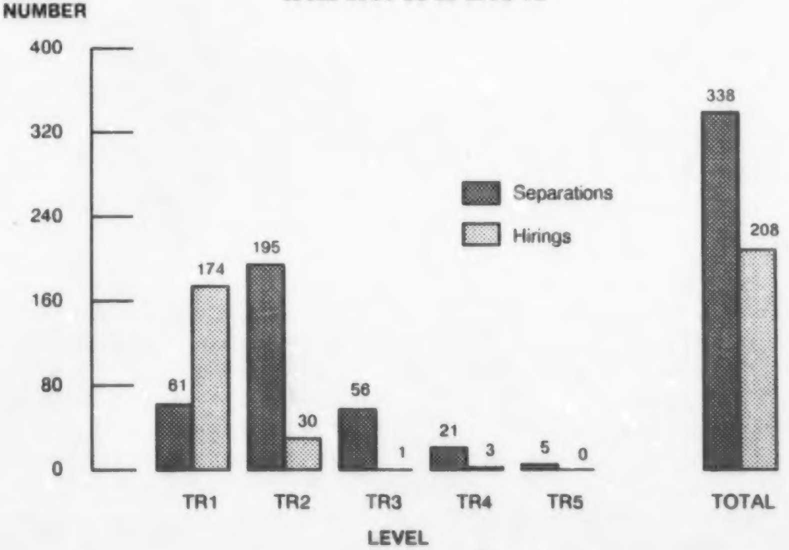
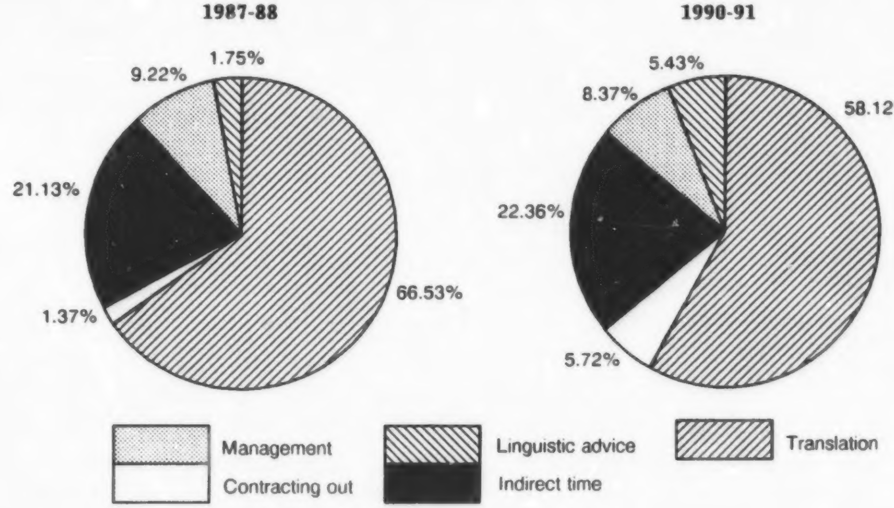


Exhibit 20.12

BREAKDOWN OF DUTIES OF TRANSLATORS (1)
WORKING IN OFFICIAL LANGUAGES TRANSLATION



(1) Does not include translators in the Parliamentary Translation and Interpretation Directorate, Regional Operations and computer-assisted translation.

related to quality. Controllers have been selected from among experienced translators and their time is spent almost exclusively in this function. They represent 4 percent of all TR3 translators working in official languages translation. Furthermore, managers maintain that in-house translation increasingly involves urgent texts and, more and more, short texts. There are no data available on this subject to determine to what extent this change has occurred.

20.115 Professionals in the field stress the need for concentration and the fact that skills and performance improve with experience. Changes in the nature of the translation, the impact of the distraction of communicating with contractors, and the diversification of tasks may, in part, account for the levels of overall productivity and performance of translators.

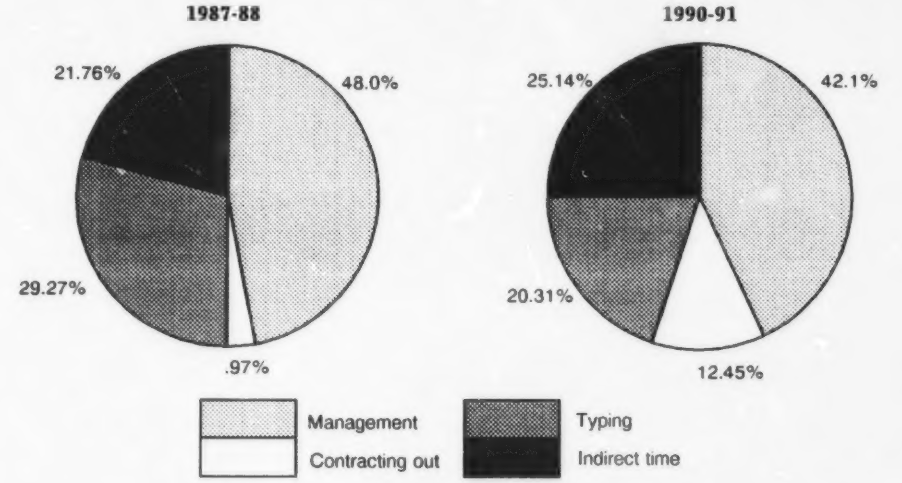
20.116 We recognize the demands on, and difficulties for, human resource management during periods of change and transition. However, our audit identified some significant repercussions on the Bureau's human resources. In our opinion, they have been due primarily to an inappropriate management strategy, insufficient analysis of the impact of change, and communication that leaves much to be desired. Management's exercise of leadership has been more reactive than proactive.

20.117 To improve the management of its human resources, the Translation Bureau should:

- **develop, in consultation with employees, a management strategy as well as its medium- and long-term objectives, the means of achieving them and the kind of resources needed. This strategy as well as the plan for its implementation, should be communicated to staff;**
- **identify the skills at its disposal to better define those it needs to acquire;**

Exhibit 20.13

BREAKDOWN OF DUTIES OF SUPPORT STAFF (1)
WORKING IN OFFICIAL LANGUAGES TRANSLATION



(1) Does not include support staff in the Parliamentary Translation and Interpretation Directorate, Regional Operations and computer-assisted translation.

- **develop methods to counter the negative effects on its staff of downsizing and contracting out.**

Department's response: *Agreed. Although* *Strategies 91-94* *contains certain elements raised by the Auditor General, the Department of the Secretary of State will revise* *Strategies 91-94* *to more fully reflect the elements of the recommendation and the principles of PS 2000 (for example, the identification of employees' skills).*

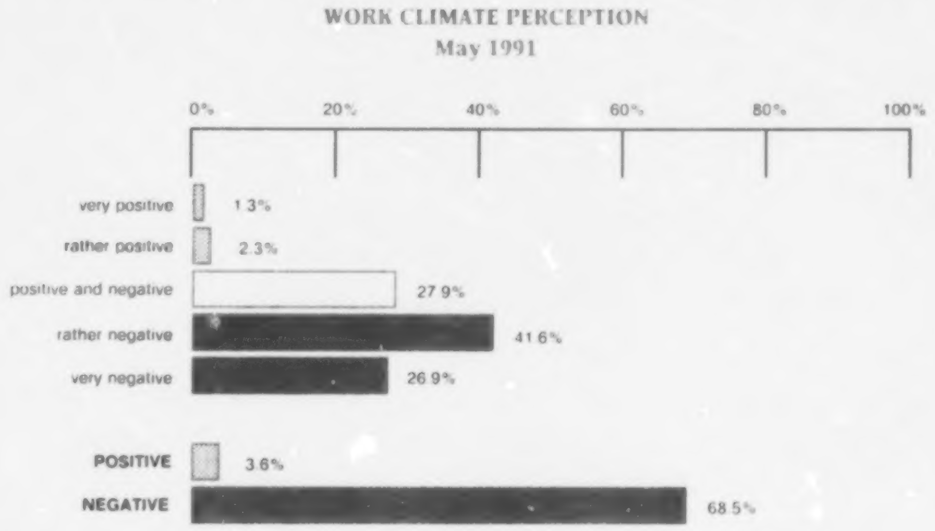
The Work Climate

20.118 The work climate in any organization constitutes an important element of operational effectiveness. Despite the significant changes during the six years covered by our audit, the Department of the Secretary of State has not conducted a study of the work climate. In view of these two factors, we consulted all the staff working directly in official languages translation, including Regional Operations personnel.

20.119 The objectives of our consultation were: first, to survey as accurately as possible the state of the work climate prevailing in the Translation Bureau in the spring of 1991, and second, to determine whether there was a relationship between the increasing use of contractors and this climate.

20.120 To this end, we met with 117 middle managers, translators and support staff, in groups, to identify major trends with positive and negative impacts on the work climate. To validate what we learned from these consultations, we later submitted a questionnaire to 1,021 persons working in official languages translation. We received 621 completed questionnaires, a response rate of 61 percent. The results were discussed with Bureau management.

Exhibit 20.14



20.121 Finally, we note that the profile of replies was essentially the same regardless of whether respondents were French- or English-speaking, worked in the National Capital Region or elsewhere in Canada, had little or a lot of experience or were managers or translators.

In general, the present work climate in the Translation Bureau is poor

20.122 As Exhibit 20.14 shows, 68.5 percent of respondents perceived the general working climate as somewhat negative or very negative, while barely 3.6 percent saw it as somewhat positive or very positive. Moreover, Exhibit 20.15 shows that three quarters of respondents perceived a deterioration since April 1988.

20.123 The consultation attempted to identify the factors that had the most positive or negative influence on morale in the workplace. Support from colleagues, professional autonomy, the nature of the work, work tools and client response were the most important sources of work satisfaction. In other words, everything touching on the practice of the profession was seen as very positive. As a sign of the translators' professionalism and the importance they attach to their work, we found that absenteeism among translators has remained fairly stable since 1986-87.

20.124 Conversely, we found that respondents viewed the future of the organization, the increasing use of contracting out, the lack of support from senior management, and job security as factors with the most negative impact on the work climate.

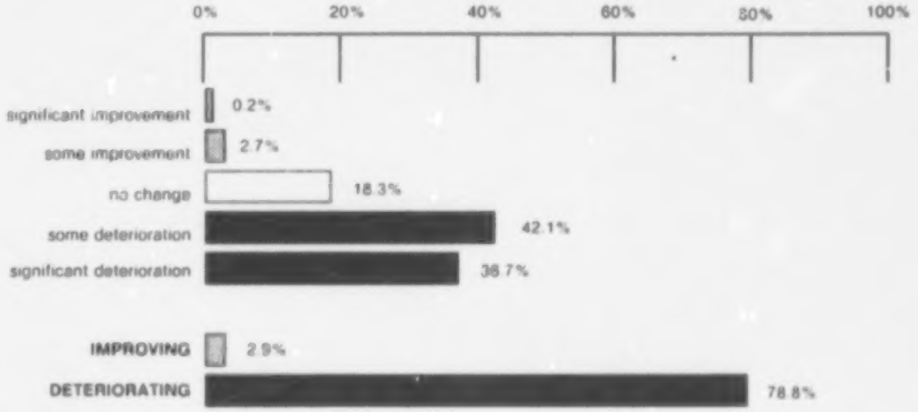
Two thirds of respondents in our survey consider that contracting out has a negative impact on the work climate. Also, they were concerned more about the management of contracting out than about its use.

20.125 The results of our survey indicated that Translation Bureau employees enjoyed their work, but were highly dissatisfied with the environment in which they had to perform it.

20.126 Moreover, the results showed an obvious link between the deterioration of the

Exhibit 20.15

PERCEPTION OF THE EVOLUTION OF THE WORK CLIMATE (1)
SINCE 1988



(1) Survey carried out in May 1991

work climate and the increase in contracting out. Indeed, for over two thirds of respondents, contracting out had a negative impact on morale. The increased use of contracting out symbolized, for them, the decreasing relevance of the organization and its anticipated disappearance. Three quarters of the respondents perceived it as a factor that reduced the quality of both the products and services of the Translation Bureau and diminished the significance of their duties.

20.127 Still addressing perceptions, we note that the staff considered contracting out to be poorly managed. In fact, respondents were more concerned with the management of contracting out than with its use. Three quarters of them judged the quality of communication to be negative. They viewed the management of downsizing as ad hoc, without consultation or clear and accurate information. People had the impression of being cut adrift and left to their own devices. We noted, in our analysis of communiqués, that management had provided little information to the staff about the repercussions of contracting out and about the future of the organization.

20.128 To improve the work climate, the Department of the Secretary of State should:

- **decide on the type or organization it wants to become and on the concrete steps it intends to take to achieve this;**
- **communicate to employees the direction it will take and the measures it plans to counteract the anticipated impact on the staff; and**
- **monitor changes in the work climate.**

Department's response: *Agreed. The Department of the Secretary of State is very sensitive to changes in the translators' working environment. In analyzing the type of organization it should be, the Translation Bureau will take into account the delicate balance to be maintained between its role as an instrument of Canada's official languages policy and its role as a common services organization. In 1992, the Department of the Secretary of State will propose an organizational structure that reflects the changes brought about by increased contracting out and the recommendations of PS 2000.*

Management of Contracting Out

Justification of the Use of Contracting Out: The Costs and Benefits

20.129 For a long time now, the Translation Bureau has been contracting out translation work. As far back as 1968-69, 17 percent of translations were being contracted out.

20.130 The Treasury Board and the government have often stated that contracting out must be considered only when it is clearly demonstrated to be advantageous. In September 1985 the President of the Treasury Board declared to the National Joint Council that:

> "Contracting out is not an end in itself and the Government does not intend to simply expand its activities in this area no matter what the cost. Our approach is one which involves a detailed analysis of all proposed initiatives from a human, financial, economic and political point of view. The results of the analysis must demonstrate a particular proposal will result in real dollar savings to the Canadian public, not just artificial person-year savings."

He added that restraints would not be undertaken on the backs of Public Service employees.

20.131 In this environment, we expected that such analysis would have been done to support the growing trend in the Translation Bureau toward contracting out. Exhibit 20.16 outlines the criteria that should be used in support of the decision to "make or buy".

The Department of the Secretary of State has carried out no analysis to identify the costs and benefits, as well as the advantages and disadvantages for its human resources and its organization, of contracting out while maintaining translation quality

20.132 A 1984 independent study recalled that, at the beginning of the 1980s, the Bureau maintained that translation contracted out was costing less than that done in-house. From 1985 to 1989, as the proportion of contracted translation grew from 20 to 35 percent, the Bureau carried out no analysis to justify this increase. However, a March 1989 program evaluation established the financial advantages of contracting out. In fact, the Translation Bureau has not done any comprehensive analysis of the impact of contracting out so as to determine whether there are overall advantages and to set its optimal level.

Exhibit 20.16

CRITERIA TO BE USED IN MAKE-OR-BUY DECISIONS

1. Ensure that full costs of the organization have been well calculated and that all costs relevant to the decision have been taken into account.
2. Carry out a documented cost analysis and identify potential savings to the organization.
3. Carry out analysis to determine the repercussions on the organization including the impact on employees. For instance:
    - productivity, quality of work and services to the clients;
    - the potential loss of in-house skills;
    - the work climate, effects on opportunities for promotion, changes in duties, and others;
    - achieving government objectives such as official languages and employment equity.

    To complete the cost-benefit analysis, one must evaluate the impact of these changes on costs and on the quality of service and product.
4. Evaluate the capacity of the private sector to provide the product or service.

20.133 In March 1991, following the federal budget, which resulted in the early retirement of 65 experienced translators, the Department of the Secretary of State pointed out to the Treasury Board, for the first time since 1985, some effects of the increasing use of contracting out. It outlined the critical situation in which the Bureau could find itself if staff reductions continued and the demand for translation increased as much as anticipated. It showed, among other things, the negative impact on translation quality and on the potential for recruitment, and the expected increase in unit costs due, in part, to the emergence of specialized sectors in which the Bureau would lack in-house translation skills.

20.134 The Department of the Secretary of State should carry out comprehensive analyses of the costs and benefits of contracting out and its effects on its human resources and organization to ensure that it is managing translation operations with due regard to economy and efficiency.

Department's response: *The Department of the Secretary of State recognizes the usefulness of analyzing the costs of in-house work and contracting out. The evaluation of the direct purchasing pilot projects in 1992-1993 will provide an opportunity to respond to this recommendation and to set up a process of efficient management. Meanwhile, the priority will remain the delivery of quality services that meet clients' needs.*

Savings from Contracting Out

20.135 We tried to estimate the savings realized by contracting out. In calculating savings per word, we took into account various factors that could affect our comparison of the cost per word translated in-house and contracted out. Thus, the cost per word translated in-house was recalculated to exclude the costs related to computer-assisted translation, since this activity is not contracted out. This adjustment raises the in-house cost in 1990-91 to 29.9 cents, as shown in Exhibit 20.17, from 27.3 cents indicated in Exhibit 20.6.

20.136 We included, in the 1990-91 cost per word contracted out, an amount of 4.7 cents that represents supplementary costs relating to contracting out. These costs cover such things as procurement and quality control activities and services supplied free of charge to contractors.

Exhibit 20.17

DIRECT COSTS SAVINGS DUE TO CONTRACTING OUT (in current dollars)

	1990-91	1989-90	1988-89
Direct in-house costs saved per word contracted out	$0.299	$0.284	$0.295
LESS: Additional cost per word contracted out	0.231	0.219	0.213
NET SAVINGS PER WORD	**$0.068**	**$0.065**	**$0.083**
Number of words contracted out (1)	133,172,000	100,828,000	81,430,000
TOTAL SAVINGS	**$ 9,055,696**	**$ 6,553,820**	**$ 6,758,690**

(1) Includes translation by Regional Operations and by Multilingual Translation Directorate

Contracting out has resulted in average annual savings of $7.5 million, in direct costs, for the last three years.

20.137 As shown in Exhibit 20.17, the savings in direct costs resulting from contracting out in 1990-91 were $9 million. Our analysis of the previous two years shows similar results. In 1989-90, these savings amounted to $6.6 million and in 1988-89, to $6.8 million. These savings do not take into account the effects of contracting out on human resources and on translation quality.

In the final analysis, has contracting out been advantageous?

20.138 It is up to management to determine the costs and benefits of contracting out. Throughout this chapter, we have stressed the absence of such analysis and have discussed various aspects of contracting out and its impact on the Translation Bureau. Based on available data, we have attempted to establish the pros and cons of contracting out and to determine whether, in fact, it has been advantageous.

Contracting out has resulted in significant annual savings in direct costs, but has had negative repercussions on the organization, particularly on human resources.

20.139 As mentioned in the previous observation, the Department has realized average annual savings of $7.5 million in direct costs for the last three years. This amounts to approximately 7 percent of the full cost of translation.

20.140 At the same time, as noted previously, there have been certain negative repercussions that may somewhat offset the savings and that have certainly been caused, in part, by contracting out:

- the loss of expertise;
- changes in responsibilities; and
- deterioration in the work climate.

20.141 It is not easy to weigh all these elements and reach a firm conclusion on the ultimate benefits of contracting out. We recognize that contracting out has been advantageous in terms of direct costs. However, in our opinion, better management of operations and human resources would have reduced the negative effects we have mentioned and significantly increased the efficiency of the Translation Bureau. We provide an example of this in paragraph 20.73.

Outlook: economic factors to be considered

20.142 In the years to come, the economic advantages of contracting out need to be closely monitored since the net savings will be affected by several factors:

- differences in direct costs between in-house and contracted out work;

- the potential for savings in indirect costs;

- the cost of managing contracts and of services provided free of charge to contractors; and

- the capacity of the private sector.

20.143 If contracting out is presently advantageous, it is due mainly to the fact that direct production costs in the Translation Bureau are higher than in the private sector. If the Bureau succeeded in reducing its direct costs, it would become more efficient, thereby reducing the savings to be made by contracting out.

20.144 Despite its substantial use of contracting out, the Department of the Secretary of State has not analyzed indirect costs to identify the potential for savings. If such an analysis were carried out, additional savings might be found to be possible.

20.145 The Department devotes significant resources to the management of contracting out and to services provided free of charge to contractors. If the resources devoted to these two activities were reduced, the cost of contracting out would fall and the savings would increase.

20.146 The potential impact on the translation market of increased contracting out must also be considered. If the private sector were not able to handle the workload, prices for work contracted out could increase rapidly. This would effectively reduce the savings resulting from contracting out.

20.147 The difficulties in forecasting future trends in these four variables highlight the importance of closely managing contracting out and of constantly monitoring in-house and contract costs.

Certification and the Inventory of Translation Contractors

20.148 In view of the large amount of translation contracted out, we reviewed the contractor certification process, the operation of the Certification Committee and the evaluation of the capacity in the inventory of contractors expressed in number of words.

20.149 Certification. The standards governing the process for certifying translation contractors must be sufficiently high to ensure that translated texts will meet contract requirements.

20.150 Generally, Translation Bureau policy requires that contractors who wish to be listed in the Department's Services Contracts Directorate inventory to obtain translation contracts meet two requirements:

- they must possess, as a minimum, sufficient writing experience in both official languages and knowledge in an area of specialization recognized by the Translation Bureau, and this knowledge must be confirmed by a diploma, a certificate or a similar degree; and
- they must pass a certification examination.

The certification process lacks rigour

20.151 The certification examination is carried out without supervision. This examination, which is delivered to the candidate by mail, consists of a 600-word text to be translated within three weeks. To pass, the candidate must obtain level B of the SICAL standard.

20.152 Our audit indicates that in 1990 the rate of success for the certification examination was 13 percent. But for an identical level of qualification, level B of the SICAL standard, the rate of success for the Translation Bureau's recruiting examination – which is taken under supervision – was 1 percent. Two important factors explain this variance: on the one hand, the difference in the amount of candidates' experience and their supervision during the examination and, on the other, the difference in the amount of time allotted for the examinations.

20.153 In our opinion, the current process can allow the certification of contractors who do not have the required skills. Given that, as we note in paragraph 20.162, the Certification Committee is very lenient in imposing sanctions against contractors who do not meet contract requirements, it is even more important that the certification process be sufficiently demanding.

20.154 As early as 1983, the Audit Services Bureau of the Department of Supply and Services recommended that the examination for the assessment of contractor skills be supervised.

20.155 The Department of the Secretary of State should revise its process for certifying translation contractors so that candidates taking the examination are supervised, to ensure a valid assessment of contractor's qualifications.

Department's response: *Agreed. In August 1991, the Translation Bureau adopted a policy of professional recognition for translators, interpreters and terminologists. Accordingly, it will review as soon as possible its accreditation policy and the various provisions it contains with respect to accreditation, sanctions and their application.*

20.156 Certification and quality control policy. The Translation Bureau must ensure, before authorizing payment, that the quality of texts translated by contractors meets the requirements stipulated in the contracts and that translations are delivered within the stated deadlines.

20.157 Cases where a contractor's translation does not meet the quality standards or the prescribed deadlines are referred to the Secretary of the Certification Committee. When a contractor has accumulated four evaluations that are unsatisfactory in terms of quality, or has delivered a significant number of texts late, the case must be referred to the Certification Committee. The Committee's mandate is to apply the policy on certification and quality control and impose sanctions where required.

20.158 Under the existing policy, when a contractor does not comply with contract provisions, the Department may, in accordance with a decision by the Certification Committee, take any measures deemed appropriate, including:

- a warning;
- a suspension;
- the withdrawal of a specialty;
- decertification; or
- a provision for general damages for texts delivered late.

During 1990, only 11 of the 24 cases where contractors failed at least four times to comply with deadlines were referred to the Certification Committee

20.159 Our audit revealed that, during 1990, only 11 of the 24 cases where contractors failed at least four times to comply with deadlines were referred to the Certification Committee. This is due mainly to the absence, in the present policy, of specific directives on when such cases should be referred to the Committee.

The Certification Committee imposes sanctions in an inequitable manner

20.160 We found that sanctions imposed on contractors were not always related to the infractions committed. For instance, in 1990 one contractor who had accumulated six quality infractions (representing 9.6 percent of his production) had his **specialty withdrawn**, while another contractor who had accumulated 14 quality infractions during the same period (representing 10.3 percent of his production) received **no sanctions**.

20.161 In our opinion, inequities exist because the "certification and quality control policy" does not specify criteria for imposing sanctions.

The Certification Committee is very lenient toward contractors who do not comply with contract requirements

20.162 We found that the Certification Committee has been very lenient in imposing sanctions against contractors who did not comply with contract requirements for both quality of translations and deadlines. For example, during 1990:

- of 41 contractor files referred to the Committee for **unsatisfactory quality**, 10 were not subjected to any sanctions, while 11 received only a warning;

- of 11 contractor files submitted to the Committee **because of failure to deliver texts on time**, as mentioned in paragraph 20.159, 4 were subjected to only a warning.

20.163 The Department of the Secretary of State should:

- **specify its policy and directives on evaluating cases of contractors that must be referred to the Certification Committee;**

- **develop criteria for imposing sanctions on contractors who do not comply with quality and deadline clauses in their various contracts; and**

- **ensure that sanctions are imposed uniformly**

Department's response: *Agreed. The follow-up to this recommendation is incorporated in 20.155.*

20.164 Contractors' translation capacity. The Services Contracts Directorate of the Department of the Secretary of State has an inventory of about 600 contractors, 70 percent of whom are individual translators. The rest are translation companies that employ translators or hire subcontractors. When registering in the inventory, contractors must indicate to the Department what their daily translation capacity is, in number of words per day and by area of specialty.

20.165 To efficiently manage its financial and human resources and to determine how much translation it can send out on contract, the Department of the Secretary of State needs a reasonable estimate of the translation capacity of contractors in the inventory, by area of specialty. Detailed information about areas of specialty among contractors where there may be a shortage would help management in planning its use of contracting out and in developing in-house the skills that cannot be found in the private sector.

The Department of the Secretary of State does not have information essential to the efficient management of contracting out

20.166 We found that the translation capacity of contractors as computed by the Department of the Secretary of State is theoretical since, in general, contractors cannot translate simultaneously in each area of specialty. Moreover, in their statement of capacity, some contractors include estimates of the capacity of subcontractors they use, and frequently these subcontractors are also registered on the inventory, so their capacity is counted twice. The Department of the Secretary of State is therefore unable to estimate by area of specialty the translation capacity of contractors registered in the inventory.

20.167 The lack of reliable data on the extent to which private sector translators can absorb, by area of specialty, the workload the Translation Bureau wants to contract out is compounded by the lack of documentation on the skills of its own translators, which we outlined in paragraph 20.110.

20.168 Consequently, the Department lacks relevant information, on both the volume of translation to be contracted out and its own human and financial resources needs, with which to plan its use of contracting out.

20.169 The Department of the Secretary of State should, from time to time, carry out evaluations of the translation capacity of translators in its inventory in order to better plan its use of contracting out.

Department's response: *The Department of the Secretary of State agrees with the recommendation, but sees some difficulties in implementing it. Nevertheless, with the development of a professional recognition policy for translators in August 1991, the Department of the Secretary of State will now consider developing and implementing a method of evaluating translation capabilities at a given point in time.*

Planning and Implementation of the Management Information System

20.170 An operational management information system must provide, in a timely fashion, complete, reliable, and relevant data that allow management to evaluate and control translation activities.

20.171 Following studies launched in 1983, the Department of the Secretary of State implemented a new management information system in September 1986, called the "Operational Information System" (OIS). This system replaced the obsolete Translation Data System.

20.172 The OIS was designed to facilitate the management of translation work in terms of workload, work distribution, production capacity, utilization of human, financial, and material resources, productivity, etc. In response to observations in our 1984 Report and in our 1986 follow-up (paragraphs 15.137 to 15.139), the Department stated that the new Operational Information System would permit improvements in analyzing and comparing in-house and contract costs of translation, in monitoring compliance with deadlines, and in providing management with the required data to measure achievement of objectives.

20.173 The system includes 120 microcomputers distributed in client departments and linked to a central computer operated by a private company in Ottawa. An interface between the OIS and other departmental systems was planned.

20.174 To temporarily compensate for deficiencies in the OIS, an information system to supplement it, called the "Computerized Work Plan" (CWP), was implemented in April 1986 by the Translation Operations Branch.

20.175 This system collects data on time utilization, average salaries, and operating expenses for each work unit. The data are supplemented manually with quantitative data from the OIS and used to determine the average cost per word translated.

The Operational Information System does not meet user needs

20.176 Because of numerous problems while the system was being implemented, the Department commissioned an impartial review of the system's quality by consultants. Their report, dated 18 April 1988, noted serious weaknesses in the architecture and implementation of the system such as the difficulty of maintaining synchronization between the two data bases of the OIS system. This created delays in capturing data and raised questions about data integrity.

20.177 In November 1988 the Department launched an improvement project to temporarily correct some of these deficiencies. Completed in mid-July 1991, this project has made possible significant changes, particularly with respect to data input, that facilitate management's use of the system.

20.178 In the meantime, in January 1991, a report submitted by the Government Consulting Group on the review of the monthly management report confirmed the lack of synchronization.

20.179 In short, it took five years to correct some major conceptual problems in the OIS, and it will be a few more years before an integrated management system can be implemented. In the meantime, as we mentioned in paragraphs 20.96 to 20.99, management does not have a system that readily provides all the information it needs to manage its operations. For example, because the Computerized Work Plan is not linked to the OIS, operational data, the ratio of in-house production to production contracted out, and cost data are not directly accessible for consolidation and analysis purposes.

It took five years to correct some major conceptual problems in the Operational Information System, and it will be a few more years before an integrated information management system can be implemented.

20.180 Not including OIS purchasing and improvement costs, which we estimated, in the absence of actual costs, at over $2 million, operating the two systems costs about $2.5 million per year, most of it related to the OIS.

20.181 The Department is currently doing a feasibility study on the integration of Computerized Work Plan and Operational Information System data as well as data from all other departmental systems. This study would be followed by another, on replacing the OIS and CWP with a single system. At the present time, informatics management favours operating OIS on its own equipment. This will require recompiling all software.

20.182 The Department of the Secretary of State should implement, as quickly as possible, a management information system that will address all user needs and management expectations, and should ensure that its efforts in this regard are properly co-ordinated.

Department's response: *Agreed. The Department of the Secretary of State has recognized the inherent difficulties in the co-existence of separate systems and has undertaken to integrate them by simplifying them, a process which it plans to complete for 1992-1993. The general migration of systems will be included in the departmental informatics plan.*

Information to Parliament

20.183 The Office of the Comptroller General requires that Part III of the Estimates include sufficient information to allow Members of Parliament and others to understand and evaluate a program's performance in terms of its planned and actual results and resources.

20.184 Our audit was limited to the section of Part III for 1991-92 related to the Translation activity and its three sub-activities: Translation Operations, Terminology and Linguistics Services, and Administration and Special Projects. We also considered an internal audit report on the Part III for 1990-91.

Significant performance indicators were not disclosed

20.185 We found that, in general, information on the Translation activity was relevant and presented on a comparative basis. Data related to the Main Estimates are reliable. The areas dealt with are relatively important. Nevertheless, we found the following deficiencies.

20.186 Performance indicators for the Translation Operations sub-activity are included in Part III. However, we found that the Translation Bureau does not use performance indicators, as required by the Office of the Comptroller General, for Terminology and Linguistic Services and for Administration and Special Projects. The Department told us that, since 1989-90, it has been waiting for the creation of the new Department of Multiculturalism and Citizenship before developing a new operational planning framework to be used in preparing Part III. In our opinion, this need not have prevented the preparation and use of performance indicators for these two sub-activities.

Incomplete information

20.187 Descriptions of the three sub-activities mentioned in paragraph 20.186 can be found in Part III under the titles "Translation", "Interpretation", "Linguistic Services", and "Computer-Assisted Translation". It is thus difficult to establish a link between the estimated expenditures and the relevant information. Moreover, some information is incomplete. No mention is made of the extent to which deadlines for the delivery of texts are respected, although this is a significant measure of the translation service. Moreover, mention is made of a downward trend in the cost per word translated, but no indication is given of the reasons for this trend.

20.188 We consider the indicator "cost per word translated" can mislead the reader because the Department does not specify what this cost includes. Paragraphs 20.42 to 20.45 outline our detailed observations on the calculation of the cost per word translated.

20.189 For the last six years, Part IIIs have repeated the statement "Decentralization of translation services has been completed in seven of the nine regions." No explanation is provided as to why decentralization is still not complete in the other two regions.

20.190 The Department's Internal Audit Bureau also noted the lack of performance measurement in its October 1990 report on the preparation of Part III of the Estimates.

20.191 With respect to the translation activity, the Department of the Secretary of State should provide in Part III of the Estimates:

- **performance indicators for the main outputs of the activity;**
- **a brief description of the elements included in the cost per word translated both in-house and contracted out; and**
- **sufficient information to ensure a sound understanding of the data and justification for the funds requested for each sub-activity in the sector.**

Department's response: *Agreed. The Department of the Secretary of State will make some improvements to the information presented in Part III of the 1992-1993 Main Estimates.*

Program Evaluation

20.192 Program evaluation is an important control mechanism, allowing managers to account for the achievement of program objectives and, using the results of the evaluations, to make programs more effective.

20.193 In March 1989 the Program Evaluation Directorate submitted an evaluation report on Official Languages Services. The evaluation was aimed, in general, at evaluating the rationale for Official Languages Services, the achievement of its objectives, and their impacts, as well as suggesting alternative approaches to delivering translation and interpretation services.

20.194 The objective of this segment of our audit was to determine whether the Department had established satisfactory procedures to measure the effectiveness of its programs. We considered the results of the program evaluation in carrying out our audit.

20.195 Our examination was limited to an analysis of reports and documents related to Official Languages Services, which was sufficient to make a judgment on the reliability of the information. We also interviewed Program Evaluation Directorate personnel who participated in the study. Our examination did not cover the management and organization of the program evaluation function.

20.196 We concluded that, in general, the evaluation was satisfactory given the previously established framework. It was well designed, carefully conducted and well documented. The evaluation provided valid information on the questions it addressed, allowing us to confirm that the mandate to provide translation services is clear, that the need for this service is obvious, and that, overall, the achievement of its objectives is satisfactory.

20.197 We also noted that an action plan has been developed to follow up on the findings and recommendations highlighted in the evaluation. This plan has been approved by senior management.

Chapter 21

Organization and Programs of the Office of the Auditor General

Organization and Programs of the Office of the Auditor General

Main Points

21.1 Under section 11 of the Auditor General Act, at the request of the Governor in Council, the Office has received orders-in-council to inquire into and report on 10 organizations (paragraphs 21.11 and 21.12).

21.2 The Office provides a variety of services to meet the needs of Members of Parliament (21.14 to 21.22).

21.3 Employment equity concerns are being addressed by the Office (21.26 to 21.29).

21.4 The Program Evaluation and Internal Audit Group serves the Auditor General directly to ensure that the Office obtains good value for money in its own expenditures (21.32).

21.5 The Office has made progress in the development of its methodology, which includes the new Comprehensive Auditing Manual (21.37 and 21.38).

21.6 Investment in new technology has provided an environment for the cost-effective exercise of professional judgment in the planning, execution and reporting of audits (21.47 to 21.52).

21.7 The Office is the secretariat to the INTOSAI Development Initiative, a training program of the International Organization of Supreme Audit Institutions, and participates in a program funded by the Canadian International Development Agency to expose international Fellows to Canadian legislative auditing (21.56 to 21.60).

21.8 The Office completed special examinations of three Crown corporations in 1990-91 (21.61 to 21.64).

Table of Contents

Paragraph

The Work of the Office 21.9

Products Required by Legislation 21.10
Section 11 of the Auditor General Act 21.11

Organization of the Office 21.13

Parliamentary Liaison 21.14
Serving Parliament (21.14)
Responding to parliamentary requests (21.16)
Electronic data processing services to Parliament (21.21)
Video services (21.22)

Audit Operations 21.23

Professional and Administrative Services Branch 21.25
Financial records (21.25)
Employment equity (21.26)
Education and professional associations (21.30)

Program Evaluation and Internal Audit Group 21.32
Increasing the effectiveness of the annual report (21.33)
Quality of financial auditing (21.34)
Interaction with government departments (21.35)

Methodology Development 21.37
Planning future methodology (21.39)

Professional Development Activities 21.44

Technology 21.47

Official Languages 21.53

International Programs 21.56
INTOSAI Development Initiative (IDI) (21.56)
International Audit Office Assistance Program (21.59)

Special Examinations of Crown Corporations 21.61

Exhibits

21.1 Organization of the Office of the Auditor General - October 1991
21.2 Disposition of Parliamentary Requests
21.3 Office of the Auditor General of Canada - Appropriations and Expenditures
21.4 Methodology Development Activities, 1990-91
21.5 Costs of Preparing Annual Audit Reports for Fiscal Years Ending on or before 31 March 1991

Organization and Programs of the Office of the Auditor General

The Work of the Office

21.9 The legislative mandate for the activities of the Office comes from the Auditor General Act and the Financial Administration Act. Section 7.1 of the Auditor General Act requires that the Auditor General "shall report annually to the House of Commons on the work of his Office." The preceding chapters of this report describe the results of audit work completed by the Office during the past year. Other work of the Office is the subject of this chapter.

The most visible work of the Auditor General is the annual report to the House of Commons and the annual opinion on the financial statements of the Government of Canada.

Products Required by Legislation

21.10 The two most visible products of the Office's work are the annual report to the House of Commons and the Auditor General's annual opinion on the financial statements of the Government of Canada. Other products are the result of substantial effort devoted to audit work to support opinions on:

- the financial statements of over 100 Crown corporations and government agencies;
- special examinations of Crown corporations where the Auditor General is the appointed auditor;
- annual attest and value-for-money audits for the governments of the Yukon and Northwest Territories; and
- other work under section 11 of the Auditor General Act.

Section 11 of the Auditor General Act

21.11 Section 11 of the Auditor General Act provides authority for the Office to carry out activities in addition to those explicitly specified in the Auditor General Act and the Financial Administration Act. If, in his opinion, doing so does not interfere with his primary responsibilities, the Auditor General may inquire into and report on other matters at the request of the Governor in Council.

21.12 As part of its ongoing efforts to finalize arrangements for activities not specifically provided for by the Act, the Office has received orders-in-council pursuant to section 11 relating to the:

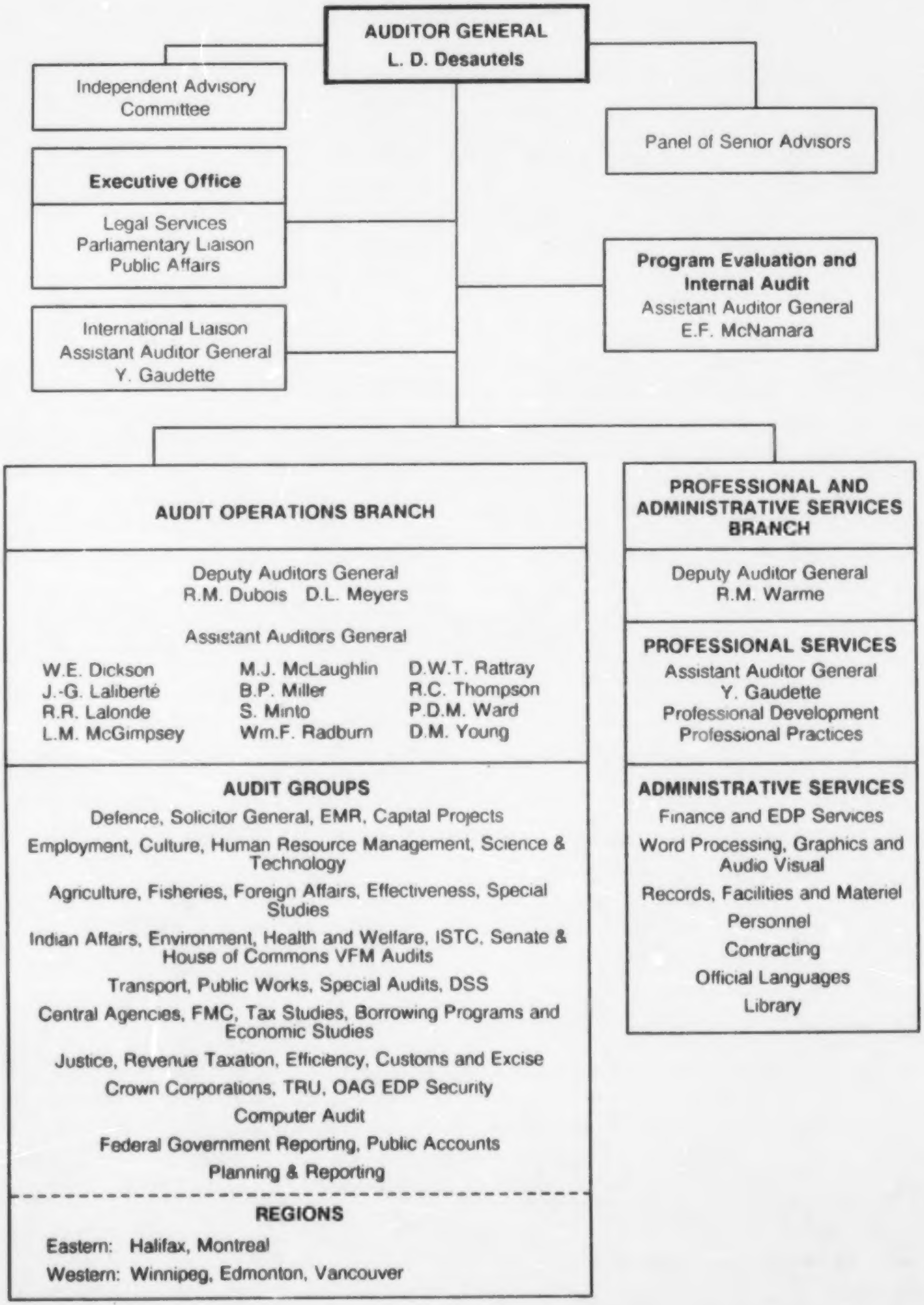
- International Civil Aviation Agency
- North Atlantic Treaty Organization
- International Atomic Energy Agency
- International Organization of Supreme Audit Institutions Development Initiative
- United Nations Development Program
- National Energy Board Cost Recovery
- Fisheries Prices Support Board
- Self-supporting Airports and Associated Ground Services Revolving Fund
- National Film Board
- International Fisheries Commission Pension Society

Organization of the Office

21.13 Exhibit 21.1 is an overview of the organizational structure of the Office showing the functions of the two branches and the Executive Office.

Exhibit 21.1

ORGANIZATION OF THE OFFICE OF THE AUDITOR GENERAL
OCTOBER 1991


AUDITOR GENERAL
L. D. Desautels
Independent Advisory Committee
Panel of Senior Advisors
Executive Office
Legal Services
Parliamentary Liaison
Public Affairs
Program Evaluation and Internal Audit
Assistant Auditor General
E.F. McNamara
International Liaison
Assistant Auditor General
Y. Gaudette
AUDIT OPERATIONS BRANCH
Deputy Auditors General
R.M. Dubois D.L. Meyers
Assistant Auditors General
W.E. Dickson
J.-G. Laliberté
R.R. Lalonde
L.M. McGimpsey
M.J. McLaughlin
B.P. Miller
S. Minto
Wm.F. Radburn
D.W.T. Rattray
R.C. Thompson
P.D.M. Ward
D.M. Young
AUDIT GROUPS
Defence, Solicitor General, EMR, Capital Projects
Employment, Culture, Human Resource Management, Science & Technology
Agriculture, Fisheries, Foreign Affairs, Effectiveness, Special Studies
Indian Affairs, Environment, Health and Welfare, ISTC, Senate & House of Commons VFM Audits
Transport, Public Works, Special Audits, DSS
Central Agencies, FMC, Tax Studies, Borrowing Programs and Economic Studies
Justice, Revenue Taxation, Efficiency, Customs and Excise
Crown Corporations, TRU, OAG EDP Security
Computer Audit
Federal Government Reporting, Public Accounts
Planning & Reporting
REGIONS
Eastern: Halifax, Montreal
Western: Winnipeg, Edmonton, Vancouver
PROFESSIONAL AND ADMINISTRATIVE SERVICES BRANCH
Deputy Auditor General
R.M. Warme
PROFESSIONAL SERVICES
Assistant Auditor General
Y. Gaudette
Professional Development
Professional Practices
ADMINISTRATIVE SERVICES
Finance and EDP Services
Word Processing, Graphics and Audio Visual
Records, Facilities and Materiel
Personnel
Contracting
Official Languages
Library

Parliamentary Liaison

Serving Parliament

21.14 The Auditor General is a servant of Parliament. He is independent of the government of the day and provides support to all Members of Parliament in an objective fashion and without regard to partisan interests.

The Office provides a range of services to Parliament.

21.15 The range of services provided to Parliament is broad and covers a variety of products, from the annual report to letters responding to requests for information about reported matters from individual MPs and Senators. This section outlines the various services provided to parliamentarians, along with other activities undertaken during the fiscal year ended 31 March 1991.

Responding to parliamentary requests

21.16 During the year, the Auditor General receives requests from Members of Parliament. These usually come in the form of a letter containing certain information or raising a point of view and asking the Auditor General to look into the matter. All of these requests are reviewed personally by the Auditor General, and an appropriate response is developed in consultation with the audit Principal responsible for the organization that the request concerns. Where the matter has potential significance and is within the scope of the Auditor General's mandate, it is included in audit work under way or planned.

21.17 The Auditor General Act requires that matters of significance be brought to the attention of Parliament in the Auditor General's annual report. For this reason, the practice of the Auditor General is to include any findings in his next annual report, rather than report to the member or committee making the request.

21.18 During the 1990-91 fiscal year, the Auditor General received 18 such requests to look into a range of matters, varying from the failure of an Indian band to pay an auditor's bill to the disposition of the Harbourfront land in Toronto. Members of three major political parties were represented in the requests. The disposition of these requests is outlined in Exhibit 21.2.

21.19 As Exhibit 21.2 shows, the majority of parliamentary requests are acted on in a positive and direct manner in the course of the regular audit work of the Office. Those beyond the scope of the Office's work usually are matters of a nature that would require the Auditor General to comment on government policy. It should be noted that Exhibit 21.2 does not include requests that may be delivered informally in conversation with the Auditor General; nor does it include those that may be set out in the course of parliamentary proceedings, including specific recommendations of parliamentary committees. For example, almost every report of the Standing Committee on Public Accounts (PAC) contains a recommendation that the Office carry out some form of assessment of departmental responses to PAC report recommendations. All of these are followed up by the Office.

Exhibit 21.2

DISPOSITION OF PARLIAMENTARY REQUESTS

Beyond scope of AG	3
Included in ongoing audit work	5
Included in plan for future audit	4
Other	6
Total written requests received	18

21.20 The Office devotes considerable effort to monitoring the proceedings of Parliament in order to maintain an awareness of the interests and concerns of its primary client. For this reason, requests from individual Members to consider specific matters are taken seriously as a direct expression of client concerns.

Electronic data processing services to Parliament

The last 10 annual reports are available on compact disc.

21.21 In recent years, the Office has made the annual report available in electronic form. The standard electronic data processing (EDP) package has been a copy of the current year's report on a disc that is compatible with the EDP equipment in MP's offices. It contains a text search capability that enables a member's staff to quickly search the entire contents of the report, using key words, for matters of interest to the MP. This year, the basic package was enhanced by the addition of an EDP version on compact disc of annual reports from the last 10 years. The compact disc is available through the Library of Parliament.

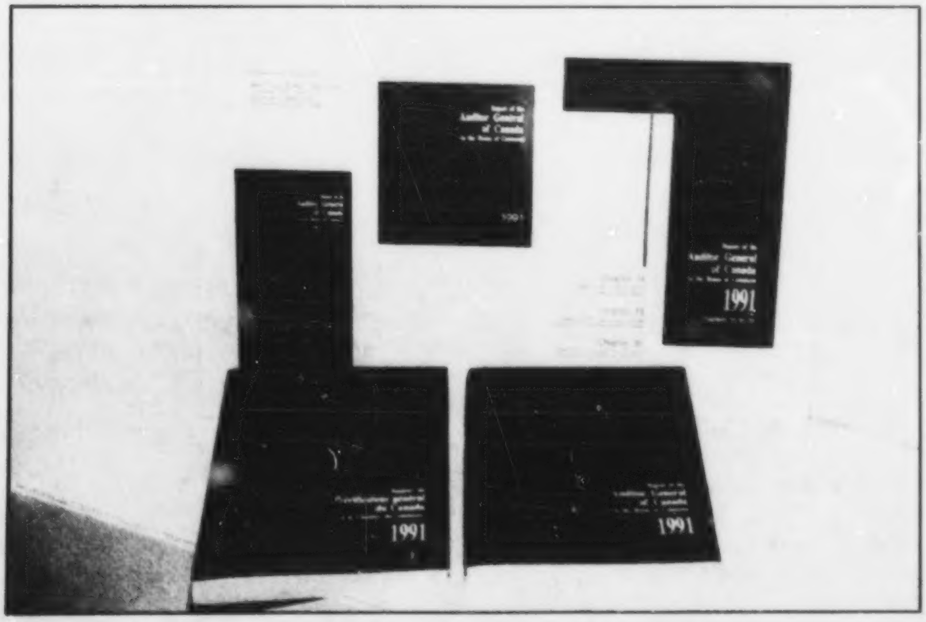
Video services

21.22 As in the past several years, highlights of the 1991 Report are summarized in a short video presentation. This video is available on Parliament's OASIS network after the report is tabled. In addition, copies of the video are available from the Office in either official language, for constituency or other uses.

Audit Operations

21.23 The audit work of the Office is conducted by the Audit Operations Branch. A typical group in Audit Operations is responsible for a mixture of departments, agencies, Crown corporations and functional operations. One audit group specializes in Crown corporations, providing advice and methodology to the other groups. Another manages the opinion on the summary financial statements of Canada, consolidating information from departmental audit teams. A third group provides expertise in the area of computer audit.

21.24 Audit Operations includes two regional groups. There are regional offices in Vancouver, Edmonton, Winnipeg, Montreal and Halifax. The regional offices contain 17.2 percent of the Audit Operations staff and are responsible for a full range of audit products in their regions.



Products of the Office's work include the annual report to the House of Commons, a Main Points booklet, a videotape of highlights of the report, a computer disk and CD-ROM (see paragraph 21.21).

Professional and Administrative Services Branch

Financial records

21.25 Administrative Services maintains financial records on the appropriations and expenditures of the Office. Comparative information is provided in Exhibit 21.3.

Employment equity

21.26 Employment equity seeks to assist persons with disabilities, members of visible minorities, aboriginal peoples and women by providing programs designed to remedy problems of employment discrimination in the Canadian workplace. Policy guidelines for this government initiative were provided by the Treasury Board in 1983. Under the current policy, departments are required to prepare affirmative action plans outlining specific targets for each group. As a separate employer, the Office is not required to prepare such plans but has chosen to do so in keeping with good management practices.

21.27 The Office of the Auditor General has an Employment Equity Committee that meets every two months. Its membership represents both branches of the Office. A working group in the Office has been responsible for a program to employ people who have disabilities, which has substantially increased their employment participation in the Office. This working group also addresses employment equity concerns for women, aboriginal peoples and visible minorities.

The Office is a full participant in employment equity.

21.28 The Office has an Employment Equity Co-ordinator, and an Employment Equity Action Guide that serves as a tool for planning and control. The Office's approach to employment equity is not to give preferential treatment to particular groups, but rather to break down any barriers to their employment. The purpose of this approach is to ensure that all persons have an equal opportunity to be hired and promoted. For people with disabilities the Office makes sure that there are no physical barriers to impede their performance in the workplace.

21.29 A number of approaches are used to ensure that all groups covered by the program are aware of available employment opportunities. For example, the Office consults with guidance officers at universities. It also works with some Indian bands to make them aware of employment opportunities in the Office. Working group members also meet on specific issues with representatives of the various groups.

Education and professional associations

21.30 Among the professional staff there are 559 degrees from post-secondary educational institutions. The majority of these degrees (182) are in accounting and business-related studies — Bachelor of Commerce and Master of Business Administration, for example. Other degrees cover a wide range of studies and include 12 PhDs. All formally granted educational degrees are from recognized educational institutions.

21.31 A similarly high level of representation is evident in the professional designations in the Office. A total of 294 staff members are certified Chartered Accountants, General Accountants, Management Accountants or Professional Engineers. The Office encourages all staff members to upgrade their education through outside studies whenever possible.

Program Evaluation and Internal Audit Group

21.32 This group serves the Auditor General directly. It informs him on how well the Office is doing its job and, if opportunities are available, on how to do it better. This helps the Auditor General to make certain that the taxpayers get maximum value for money from his Office.

Exhibit 21.3

OFFICE OF THE AUDITOR GENERAL OF CANADA
APPROPRIATIONS AND EXPENDITURES

Appropriations and Expenditures by Activity

	1991-92	1990-91		1989-90	
	Estimates	Appropriations	Expenditures	Appropriations	Expenditures
		(thousands of dollars)			
Legislative Auditing	$ 60,006	$ 56.550	$ 56,319	$ 52,680	$ 52,614
TOTAL	$ 60,006	$ 56,550	$ 56.319	$ 52,680	$ 52,614

Appropriations and Expenditures by Object

	1991-92	1990-91		1989-90	
	Estimates	Appropriations	Expenditures	Appropriations	Expenditures
		(thousands of dollars)			
Salaries and Wages	$ 35,782	$ 34,057	$ 34,767	$ 31,896	$ 32,240
Contributions to Employee Benefit Plans	5,405	5,529	5,529	4,848	4,848
Transportation and Communications	4,014	3,394	3,606	3,122	3,656
Information	363	245	552	225	348
Professional and Special Services	11,201	9,574	7,964	7,732	7,117
Rentals	301	294	314	270	272
Purchased Repair and Upkeep	440	539	533	758	522
Utilities, Materials and Supplies	603	906	803	832	772
Capital Construction or Acquisition of Machinery and Equipment	1,360	1,500	1,721	2,502	2,340
Transfer Payments	505	505	504	488	481
All Other Expenditures	32	7	26	7	18
TOTAL	**$ 60,006**	**$ 56,550**	**$ 56,319**	**$ 52,680**	**$ 52,614**

The Program Evaluation and Internal Audit Group helps the Office to get maximum value for money from its own expenditures.

The group provides management information on the performance of the Office that is not readily available elsewhere. Last year the group concentrated on the following three important areas:

- how the Auditor General's annual report could be made more effective;
- whether the financial auditing standards have been complied with;
- how well the Office interacts with government departments and, if needed, what opportunities exist for improvement.

Increasing the effectiveness of the annual report

21.33 During the year, the proceedings of the Symposium on Communicating Audit Information in the Nineties (SCAN) were published and circulated throughout the audit and legislative communities. These proceedings took the form of prescriptions for the successful communication of legislative audit information. They captured the experience and expertise of a wide representation of North American and European legislative auditors, legislators, public service managers, media people and communications experts. Several of the prescriptions have been adopted by the Office and also by a number of provincial legislative audit offices.

Quality of financial auditing

21.34 A large part of the audit resources of the Office is dedicated to attesting to the financial statements of Crown corporations and other entities, and the Public Accounts. It is imperative that this audit work be of unassailable quality. It was determined, during the year, that this work complied with the Office's quality standards.

Interaction with government departments

21.35 Audit efficiency is somewhat dependent on the relationship between auditors and departmental officials. The Office needs insight into how audit teams interact with government entities, and how the entities view these interactions. During the year, interim reports were issued on the following:

- how audit teams get a working knowledge of the entity for the purpose of deciding what to audit — this analysis revealed some effective practices by individual audit teams that could be more widely used by the Office;
- how audit teams develop rapport with the entity when beginning an audit, when communicating audit progress, and when clearing results; and
- how audit team leaders brief the Office of the Comptroller General of Canada on their audit findings.

21.36 A final report in this series will describe how the audited entities view all aspects of these interactions. It will also capture their suggestions for improvement.

Major emphasis has been placed on methodology development.

Methodology Development

21.37 The Methodology Development Committee manages the development of professional standards for the work of the Office. Under its direction, members of the staff research, test and publish policy positions and related guidance. These determine the quality standards of the Office, which are approved by the Methodology Development Committee. The Committee is supported by the Professional Practices Group. Exhibit 21.4 summarizes the activities co-ordinated by the Committee during 1990-91.

21.38 The most significant achievement in the year was the publication and implementation of the Office's revised

Exhibit 21.4

METHODOLOGY DEVELOPMENT ACTIVITIES, 1990-91

Approach: The Office develops its methodology with input from specialists and general practitioners both in and outside the Office. It takes into account the research and standard-setting activities of professional bodies. And it seeks input from public sector managers to secure acceptance of its approaches and criteria.

Activities: During 1990-91, the Committee, with the support and assistance of many staff in the Office:

- published (electronically and on paper) the Office's revised and consolidated Comprehensive Auditing Manual and began to put it into practice;
- established Office positions on auditing compliance with authorities, and approved a draft guide on the subject for extended field testing;
- approved revised methodology for auditing cash management in departments and agencies;
- reviewed the results of special examinations conducted in Crown corporations during the first five years under the revised audit regime and, subsequent to the year end, approved in principle the methodology for doing special examinations in the next five years;
- approved Office policy positions and related guidance for auditors when they examine departmental action on the recommendations of parliamentary committees or previous audits;
- continued projects that deal with:
  - setting the scope of value-for-money audits;
  - revising our approach to auditing human resource management;
- started a project to update the Office's methodology for reviewing internal auditing (in preparation for a forthcoming government-wide study of internal auditing);
- started a project to update the Office's approach to auditing matters of efficiency (to reflect the lessons learned in our recent government-wide study);
- continued and expanded its practice-exchange program, presenting seminars and workshops on a range of different subjects, including improved efficiency in auditing.

Resources: Research and development of standards and other guidance is an important activity for any professional organization; the Office invests approximately 4 percent of its budget on this type of work. Office expenditures on methodology development during 1990-91 amounted to $1.9 million.

Comprehensive Auditing Manual. This marks an important step forward for the Office's methodology. It reflects in one volume the lessons learned over more than a decade of comprehensive auditing. It thus provides a more complete framework within which the Office's professional staff can exercise the judgment and initiative required in value-for-money auditing. The manual not only reflects a more mature methodology but also signals a greater degree of discipline in our work than was feasible in the pioneering days of comprehensive auditing.

Planning future methodology

21.39 While our methodology is more mature, it is not perfect or static. The Office adjusts its audit methodologies to reflect not only lessons learned from past experience but also the results of research and standard setting by various professional bodies.

21.40 Perhaps most important, the Office's audit methodologies respond to changes in the control and accountability relationship between Parliament and government. This is because many questions about audit methodology are, at their roots, really questions about parliamentary control and accountability. Where expectations, responsibility and accountability are unclear, audits are difficult to perform. Legislative auditing serves the accountability and control relationship between Parliament and government.

21.41 It would be unrealistic for the Office to try to develop its audit methodologies in isolation, because of the close relationship between audit and the accountability relationship it serves. Many questions have

Senior management participated in a workshop to discuss practice issues and the implementation of the Comprehensive Auditing Manual (see paragraph 21.38).

concerned the practitioners and observers of comprehensive auditing since it was first introduced in the federal government by the late James Macdonell. They include, for example:

- What results are important, and how accurately and precisely can we (and should we) measure them?
- Which types of audit, study and investigation that have emerged in practice best serve the accountability relationship between government and Parliament?
- How do audit methodologies reflect and respect the nature of responsibilities at different levels in the accountability chain, and the involvement of different levels of government?
- How can we ensure that audit conclusions are fair and consistent among audits conducted in various government departments at various times?

21.42 These are not easy questions. Accordingly, the Methodology Development Committee has launched consultations with elected and appointed officials and with professional colleagues who have also grappled with these issues. The purpose of the consultations is to prepare a strategic plan for continuing to develop the Office's methodology.

21.43 The results will help establish whether and how the Office can do its work in ways that will better help Parliament and government to improve the control and accountability relationship that the Office serves.

Professional Development Activities

21.44 Professional development activities are essential to maintaining the professional competence of an audit office, and to ensuring a constant flow of qualified staff and state-of-the-art methodology.

21.45 During 1990-91 the Office's Professional Development Group:

- presented 85 different courses internally in 191 offerings, for a total of 3,640 training days;
- funded 591 days of external training; and
- provided approximately 1,200 days of professional conference attendance.

21.46 All of the above amounts to more than 5,400 days of professional development activities. This represents an average of 8.7 days for every staff member.

Investment in technology helps auditors to adapt to a changing audit environment.

Technology

21.47 The Office has made significant investments based on a technology strategy over the last decade, including about $1 million each year for computer development. The primary purpose of this investment has been to "empower the individual" by providing flexible and easy-to-use tools that both support the professional auditor and provide the necessary flexibility to adapt to a changing auditing environment. These tools enable auditors to cost-effectively exercise their professional judgment in the planning, execution and reporting of audits.

21.48 The second purpose of the investment is to focus on the importance of the team and the group in auditing. The ability to work together and share information is critical to the success of our audits. Therefore, it is imperative that we provide tools for the auditor to easily store, manipulate and retrieve shared information. Facilitating individual creativity in a team environment requires us to look at communications and applications that bring teams and groups together. This is a particular priority for our regional and field offices. Video and teleconferencing, voicemail, and high speed computer access to the head office will be investigated and implemented where cost effective.

21.49 The technological environment of the Office has continued to change dramatically with the further development of:

- IDEA — Interactive Data Extraction and Analysis a software package that allows an auditor to enter a client's data into a microcomputer and manipulate it with ease and flexibility. A new version, 4.0, whose development was supported by the Office along with major accounting firms in Canada, the United Kingdom and the United States, has been released by the Canadian Institute of Chartered Accountants.

- The ATTEST system — a data base application used as a tool in the audit of the Public Accounts required under section 6 of the Auditor General Act. Audit teams input the results of their audits of departmental accounts; the ATTEST system consolidates these results and facilitates their numerical processing by the Central Team responsible for the Public Accounts.

- Publication of the OAG audit data base on CD-ROM — an electronically searchable repository of accounting and auditing reference material. It contains public sector audit information from a number of countries, including the United States, Great Britain, Australia and New Zealand.

21.50 In early 1991 the Office began to bring a new management information system on line — the MIS2000, started in the fall of 1988. This replaces a system used since 1982. The MIS2000 is intended to meet the Office's needs into the next century. The implementation of the MIS2000 demanded that all staff have high speed electronic access to the central mini-computer.

21.51 The first applications implemented on the MIS2000 were intended to facilitate the management of the audit process, but the system has also created opportunities to develop and implement other team and group processes. One such achievement is the provision of access to the OAG audit data base through the corporate system. Not only will this mechanism eliminate the need for most auditors to have CD-ROM drives, it will also allow additions to the data base to be accessible to auditors as soon as the information is prepared or received.

21.52 MIS2000 is, therefore, more than a management information system; it is the beginning of a comprehensive corporate information management system.

CD-ROM technology has become available. Auditors use the technology with the assistance of Office librarians (see paragraph 21.49).

Official Languages

21.53 The Office strives in its day-to-day operations to fully reflect its commitment to maintaining a sufficient level of bilingual resources to perform its work in both official languages. This commitment enables the Office to communicate with the public and to conduct audits in English or French, and to provide employees with equal opportunities to perform their duties in the language of their choice.

21.54 The Office has continued its efforts to improve the second-language skills of its employees. Over the last fiscal year, 94 employees benefited from French language training and 37 from English language training. The Second Language Evaluation Test was administered to 120 candidates.

21.55 The Commissioner of Official Languages noted in his last annual report that the OAG "has improved the quality of its services in both official languages." This progress has been achieved despite the fact that "it still has a number of problems to solve with respect to language of work and the equitable participation of both language groups."

International Programs

INTOSAI Development Initiative (IDI)

21.56 IDI is a training program of the International Organization of Supreme Audit Institutions (INTOSAI) established in 1986. Its secretariat is presently attached to the Auditor General of Canada.

21.57 As of December 1990, IDI had sponsored 31 workshops for 694 people from 105 participating Supreme Audit Institutions, who contributed 67 resource persons to the program. IDI has published an International Directory of Information for Audit Training, which is distributed in five languages to all of its 158 member institutions. The directory contains 90 course outlines contributed by 17 Supreme Audit Institutions, training models, case studies and an inventory of microcomputer software for audit purposes.

21.58 IDI has an annual operating budget of approximately $1.2 million provided by various national and international aid agencies. The Canadian International Development Agency was among IDI's first supporters. Other contributors are the Asian Development Bank, the Commonwealth Secretariat, the Finnish International Development Agency, the Inter-American Development Bank, the Japan International Cooperation Agency, the Royal Norwegian Ministry of Development Cooperation and the United Nations Development Program.

International Audit Office Assistance Program

21.59 The Office is pleased with of the success of the International Audit Office Assistance Program, funded by the Canadian International Development Agency through a non-governmental organization — the Canadian Comprehensive Audit Foundation. The program provides fellowships to senior legislative auditors from developing countries. It gives them an opportunity to spend one year in a Canadian environment in which they become exposed to advanced techniques in public sector auditing. In most cases, the Fellows spend their year working with this Office.

21.60 This year marks the eleventh anniversary of the program; so far 41 countries have participated, sending more than 95 Fellows to Ottawa.

Special Examinations of Crown Corporations

21.61 Pursuant to section 132 of the Financial Administration Act (FAA), where it is the appointed auditor the Office must provide an annual audit report on each parent Crown corporation and its wholly owned subsidiaries. This report includes an opinion on their financial statements and an opinion on compliance with specified authorities. It may also include reporting on any other matter deemed significant. Section 147 of the FAA requires that the Office report the "fully loaded" costs of preparing these annual audit reports on Crown corporations (see Exhibit 21.5).

Three special examinations of Crown corporations were completed in 1990-91.

21.62 Section 138 of the FAA requires that, at least once every five years, each parent Crown corporation named in Schedule III of the FAA undergo a special examination This requirement is distinct from the requirement for annual audits of financial statements.

The 1991-92 CCAF Fellows are, from left to right: Awais Sheikh (Pakistan), Jamel Khemakhem (Tunisia), Rafael Palomo (Costa Rica), Kebede Wagari (Ethiopia), Anjana Das (India), Charles Bezaliel (Zimbabwe), and Dibaker Bhattarai (Nepal) (see paragraph 21.59).

Exhibit 21.5

COSTS OF PREPARING ANNUAL AUDIT REPORTS FOR FISCAL YEARS ENDING ON OR BEFORE 31 MARCH 1991

Crown Corporation	Fiscal Year Ended	Cost Incurrred
Atlantic Pilotage Authority	31.12.90	$ 54,010
Atomic Energy of Canada Limited	31.03.91	374,870
Canada Deposit Insurance Corporation	31.12.90	227,490
Canada Development Investment Corporation (Joint Auditor)	31.12.90	22,880
Canada Harbour Place Corporation	31.03.91	31,680
Canada Lands Company Limited	31.03.91	6,910
Canada Lands Company (Mirabel) Limited	31.03.91	32,930
Canada Lands Company (Vieux-Port de Québec) Inc.	31.03.91	7,800
Canada Mortgage and Housing Corporation (Joint Auditor)	31.12.90	176,350
Canada Museums Construction Corporation Inc.	31.03.91	51,850
Canada Post Corporation (Joint Auditor)	31.03.91	356,550
Canadian Commercial Corporation	31.03.91	65,900
Canadian Dairy Commission	31.07.90	119,700
Canadian Livestock Feed Board	31.03.91	34,620
Canadian National (West Indies) Steamships Limited	31.12.90	4,080
Canadian Patents and Development Limited	31.03.91	57,610
Canadian Saltfish Corporation	31.03.91	147,410
Cape Breton Development Corporation	31.03.90	236,700
Cape Breton Development Corporation	31.03.91	238,990
Defence Construction (1951) Limited	31.03.91	44,700
Enterprise Cape Breton Corporation	31.03.90	75,350
Enterprise Cape Breton Corporation	31.03.91	118,220
Export Development Corporation	31.12.90	425,280
Farm Credit Corporation	31.03.91	225,710
Federal Business Development Bank (Joint Auditor)	31.03.91	294,860
Freshwater Fish Marketing Corporation	30.04.90	128,180
Great Lakes Pilotage Authority, Ltd.	31.12.90	48,590
Harbourfront Corporation (Joint Auditor)	31.03.91	51,440
International Centre for Ocean Development	31.03.91	54,530
Laurentian Pilotage Authority	31.12.90	84,690
Marine Atlantic Inc. (Joint Auditor)	31.12.90	162,090
National Capital Commission	31.03.91	211,850
Old Port of Montreal Corporation Inc.	31.03.91	67,370
Pacific Pilotage Authority	31.12.90	46,900
Royal Canadian Mint	31.12.90	208,240
The St. Lawrence Seaway Authority	31.03.91	88,430
Seaway International Bridge Corporation Ltd.	31.12.90	28,660
The Jacques Cartier and Champlain Bridges Incorporated	31.03.91	65,910
Standards Council of Canada	31.03.91	47,340
Teleglobe Canada	31.12.90	11,640
VIA Rail Canada Inc.	31.12.90	374,390

21.63 The objective of a special examination is to determine whether a corporation's financial and management control and information systems, and its management practices, can provide reasonable assurance that:

- assets have been safeguarded and controlled;
- financial, human and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

In 1990-91 the Office completed three special examinations. The "fully loaded" costs of these special examinations were:

Canadian Museums Construction Corporation	$550,340
Canadian Saltfish Corporation	$312,330
International Centre for Ocean Development	$422,550

21.64 At the end of the 1990-91 fiscal year, only one special examination (Farm Credit Corporation) was in progress; it is expected to be completed during 1991-92.

Appendix A

Auditor General Act

R.S., c. A-17

An Act respecting the office of the Auditor
General of Canada and matters related
or incidental thereto

SHORT TITLE

Short title

1. This Act may be cited as the *Auditor General Act*. 1976-77, c. 34, s.1.

INTERPRETATION

Definitions

2. In this Act,

"Auditor General"

"Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);

"Crown corporation"

"Crown corporation" has the meaning assigned by section 83 of the *Financial Administration Act;*

"Department"

"department" has the meaning assigned to that term by section 2 of the *Financial Administration Act;*

"Registrar"

"registrar" means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*. 1976-77, c. 34, s.2, 1984, c. 31, s.14.

AUDITOR GENERAL OF CANADA

Appointment and tenure of office

3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem

(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General. 1976-77, c. 34, s.3.

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the

President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him. 1976-77, c. 34, s.4; 1980-81-82-83, c. 50 s.23, c. 55, s.1.

DUTIES

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act. 1976-77, c. 34, s.5.

Idem

6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have. 1976-77, c. 34, s. 6, 1980-81-82-83, c. 170, s. 25.

Report to House of Commons

7. (1) The Auditor General shall report annually to the House of Commons
(a) on the work of his office; and,
(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency; or

(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

Submission of report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting. 1976-77, c. 34, s.7.

Special report

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report.

Submission of reports to Speaker and tabling in the House of Commons

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting. 1976-77, c. 34, s.8.

Idem

9. The Auditor General shall

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and;

(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act;*

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities. 1976-77, c. 34, s.9.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board. 1976-77, c. 34, s.10.

Inquiry and Report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought. 1976-77, c. 34, s.11.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board. 1976-77, c. 34, s.12.

ACCESS TO INFORMATION

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*. 1976-77, c. 34, s.13.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada. 1976-77, c. 34, s.14.

STAFF OF THE AUDITOR GENERAL

Officers, etc.

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

Contract for professional services

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in appropriation Acts, contract for professional services.

Delegation to Auditor General

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*, other than the powers, duties and functions of the Commission in relation to appeals under sections 21 and 31 of that Act and inquiries under section 34 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office. 1976-77, c. 34, s.15.

Responsibility for personnel management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph (1)(e) and sections 11 to 13 of that Act. 1976-77, c. 34, s.16.

Classification standards

17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office. 1976-77, c. 34, s.18.

Delegation

18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the *Financial Administration Act* and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General. 1976-77, c. 34, s.19.

ESTIMATES

Estimates

19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office. 1976-77, c. 34, s.20.

Approbation allotments

20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General. 1976-77, c. 34, s.21.

AUDIT OF THE OFFICE OF THE AUDITOR GENERAL

Audit of the Office of the Auditor General

21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting. 1976-77, c. 34, s.22.

Appendix B

Financial Administration Act
Extracts from Part X

FINANCIAL ADMINISTRATION ACT

R.S., c. F-11

Extracts from Part X

CROWN CORPORATIONS

Financial Management

Books and systems

131. (1) Each parent Crown corporation shall cause

(a) books of account and records in relation thereto to be kept, and

(b) financial and management control and information systems and management practices to be maintained,

in respect of itself and each of its wholly-owned subsidiaries, if any.

Idem

(2) The books, records, systems and practices referred to in subsection (1) shall be kept and maintained in such manner as will provide reasonable assurance that

(a) the assets of the corporation and each subsidiary are safeguarded and controlled;

(b) the transactions of the corporation and each subsidiary are in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(c) the financial, human and physical resources of the corporation and each subsidiary are managed economically and efficiently and the operations of the corporation and each subsidiary are carried out effectively.

Internal audit

(3) Each parent Crown corporation shall cause internal audits to be conducted, in respect of itself and each of its wholly-owned subsidiaries, if any, to assess compliance with subsections (1) and (2), unless the Governor in Council is of the opinion that the benefits to be derived from those audits do not justify their cost.

Financial statements

(4) Each parent Crown corporation shall cause financial statements to be prepared annually, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with generally accepted accounting principles as supplemented or augmented by regulations made pursuant to subsection (6) if any.

Form of financial statements

(5) The financial statements of a parent Crown corporation and of a wholly-owned subsidiary shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation or subsidiary.

Regulations

(6) The Treasury Board may, for the purposes of subsection (4), make regulations respecting financial statements either generally or in respect of any specified parent Crown corporation or any parent Crown corporation of a specified class, but such regulations shall, in respect of the preparation of financial statements, only supplement or augment generally accepted accounting principles. 1991, c. 24, s. 41.

Auditor's Reports

Annual auditor's report

132. (1) Each parent Crown corporation shall cause an annual auditor's report to be prepared, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with the regulations, on

(a) the financial statements referred to in section 131 and any revised financial statement referred to in subsection 133(3); and

(b) any quantitative information required to be audited pursuant to subsection (5).

Contents

(2) A report under subsection (1) shall be addressed to the appropriate Minister and shall

(a) include separate statements, whether in the auditor's opinion,

(i) the financial statements are presented fairly in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year,

(ii) the quantitative information is accurate in all material respects and, if applicable, was prepared on a basis consistent with that of the preceding year, and

(iii) the transactions of the corporation and of each subsidiary that have come to his notice in the course of the auditor's examination for the report were in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(b) call attention to any other matter falling within the scope of the auditor's examination for the report that, in his opinion, should be brought to the attention of Parliament.

Regulations

(3) The Treasury Board may make regulations prescribing the form and manner in which the report referred to in subsection (1) is to be prepared.

Separate reports

(4) Notwithstanding any other provision of this Part, the auditor of a parent Crown corporation may prepare separate annual auditor's reports on the statements referred to in paragraph (1)(a) and on the information referred to in paragraph (1)(b) if, in the auditor's opinion, separate reports would be more appropriate.

Audit of quantitative information

(5) The Treasury Board may require that any quantitative information required to be included in a parent Crown corporation's annual report pursuant to subsection 150(3) be audited.

Other reports

(6) The auditor of a parent Crown corporation shall prepare such other reports respecting the corporation or any wholly-owned subsidiary of the corporation as the Governor in Council may require.

Examination

(7) An auditor shall make such examination as he considers necessary to enable him to prepare a report under subsection (1) or (6).

Reliance on internal audit

(8) An auditor shall, to the extent he considers practicable, rely on any internal audit of the corporation being audited that is conducted pursuant to subsection 131(3). 1991, c. 24, s. 42.

Errors and omissions

133. (1) A director or officer of a Crown corporation shall forthwith notify the auditor and the audit committee of the corporation, if any, of any error or omission of which the director or officer becomes aware in a financial statement that the auditor or a former auditor has reported on or in a report prepared by the auditor or a former auditor pursuant to section 132.

Idem

(2) Where an auditor or former auditor of a Crown corporation is notified or becomes aware of any error or omission in a financial statement that the auditor or former auditor has reported on or in a report prepared by the auditor or former auditor pursuant to section 132, he shall forthwith notify each director of the corporation of the error or omission if he is of the opinion that the error or omission is material.

Correction

(3) Where an auditor or former auditor of a Crown corporation notifies the directors of an error or omission in a financial statement or report pursuant to subsection (2), the corporation shall prepare a revised financial statement or the auditor or former auditor shall issue a correction to the report, as the case may be, and a copy thereof shall be given to the appropriate Minister. 1984, c. 31, s. 11.

Auditors

Appointment of auditor

134. (1) The auditor of a parent Crown corporation shall be appointed annually by the Governor in Council, after the appropriate Minister has consulted the board of directors of the corporation, and may be removed at any time by the Governor in Council, after the appropriate Minister has consulted the board.

Auditor General

(2) On and after January 1, 1989, the Auditor General of Canada shall be appointed by the Governor in Council as the auditor, or a joint auditor, of each parent Crown corporation named in Part I of Schedule III, unless the Auditor General waives the requirement that he be so appointed.

Idem

(3) Subsections (1) and (2) do not apply in respect of any parent Crown corporation the auditor of which is specified by any other Act of Parliament to be the Auditor General of Canada, but the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a parent Crown corporation pursuant to subsection (1) and section 135 does not apply to him.

Exception

(4) Notwithstanding subsection (1), where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the auditor of the subsidiary, and subsections (6) and sections 135 to 137 apply in respect of that auditor as though the references therein to a parent Crown corporation were references to the subsidiary.

Criteria for appointment

(5) The Governor in Council may make regulations prescribing the criteria to be applied in selecting an auditor for appointment pursuant to subsection (1) or (4).

Re-appointment (6) An auditor of a parent Crown corporation is eligible for re-appointment on the expiration of his appointment.

Continuation in office (7) Notwithstanding subsection (1), if an auditor of a parent Crown corporation is not appointed to take office on the expiration of the appointment of an incumbent auditor, the incumbent auditor continues in office until his successor is appointed. 1984, c.31, s.11.

Persons not eligible **135.** (1) A person is disqualified from being appointed or re-appointed or continuing as an auditor of a parent Crown corporation pursuant to section 134 if that person is not independent of the corporation, any of its affiliates, or the directors or officers of the corporation or any of its affiliates.

Independence (2) For the purpose of this section,

(a) independence is a question of fact; and

(b) a person is deemed not to be independent if that person or any of his business partners

(i) is a business partner, director, officer or employee of the parent Crown corporation or any of its affiliates, or a business partner of any director, officer or employee of the corporation or any of its affiliates,

(ii) beneficially owns or controls, directly or indirectly through a trustee, legal representative, agent or other intermediary, a material interest in the shares or debt of the parent Crown corporation or any of its affiliates, or

(iii) has been a receiver, receiver-manager, liquidator or trustee in bankruptcy of the parent Crown corporation or any of its affiliates within two years of his proposed appointment as auditor of the corporation.

Resignation (3) An auditor of a parent Crown corporation who becomes disqualified under this section shall resign forthwith after becoming aware of his disqualification. 1984, c.31, s.11.

Qualifications preserved **136.** Nothing in sections 134 and 135 shall be construed as empowering the appointment, re-appointment or continuation in office as an auditor of a parent Crown corporation of any person who does not meet any qualifications for such appointment, re-appointment or continuation established by any other Act of Parliament. 1984, c. 31, s. 11.

Resignation **137.** A resignation of an auditor of a parent Crown corporation becomes effective at the time the corporation receives a written resignation from the auditor or at the time specified in the resignation, whichever is later. 1984, c. 31, s. 11.

Special Examination

Special examination

138. (1) Each parent Crown corporation shall cause a special examination to be carried out in respect of itself and its wholly-owned subsidiaries, if any, to determine if the systems and practices referred to in paragraph 131(1)(b) were, in the period under examination, maintained in a manner that provided reasonable assurance that they met the requirements of paragraphs 131(2)(a) and (c).

Time for examination

(2) A special examination shall be carried out at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require.

Plan

(3) Before an examiner commences a special examination, he shall survey the systems and practices of the corporation to be examined and submit a plan for the examination, including a statement of the criteria to be applied in the examination, to the audit committee of the corporation, or if there is no audit committee, to the board of directors of the corporation.

Resolution of disagreements

(4) Any disagreement between the examiner and the audit committee or board of directors of a corporation with respect to a plan referred to in subsection (3) may be resolved

(a) in the case of a parent Crown corporation, by the appropriate Minister; and

(b) in the case of a wholly-owned subsidiary, by the parent Crown corporation that wholly owns the subsidiary.

Reliance on internal audit

(5) An examiner shall, to the extent he considers practicable, rely on any internal audit of the corporation being examined conducted pursuant to subsection 131(3). 1984, c.31, s.11.

Report

139. (1) An examiner shall, on completion of the special examination, submit a report on his findings to the board of directors of the corporation examined.

Contents

(2) The report of an examiner under subsection (1) shall include

(a) a statement, whether in the examiner's opinion, with respect to the criteria established pursuant to subsection 138(3), there is reasonable assurance that there are no significant deficiencies in the systems and practices examined; and

(b) a statement of the extent to which the examiner relied on internal audits. 1984, c.31, s.11.

Special report to appropriate Minister

140. Where the examiner of a parent Crown corporation, or a wholly owned subsidiary of a parent Crown corporation, named in Part I of Schedule III is of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of the appropriate Minister, he shall, after consultation with the board of directors of the corporation, or with the board of the subsidiary and corporation, as the case may be, report that information to the Minister and furnish the board or boards with a copy of the report. 1984, c.31, s.11.

Special report to Parliament

141. Where the examiner of a parent Crown corporation, or a wholly-owned subsidiary of a parent Crown corporation, named in Part I of Schedule III of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of Parliament, he shall, after consultation with the appropriate Minister and the board of directors of the corporation, or with the boards of the subsidiary and corporation, as the case may be, prepare a report thereon for inclusion in the next annual report of the corporation and furnish the board or boards, the appropriate Minister and the Auditor General of Canada with copies of the report. 1984, c.31, s.11.

Examiner

142. (1) Subject to subsections (2) and (3), a special examination referred to in section 138 shall be carried out by the auditor of a parent Crown corporation.

Idem

(2) Where, in the opinion of the Governor in Council, a person other than the auditor of a parent Crown corporation should carry out a special examination, the Governor in Council may, after the appropriate Minister has consulted the board of directors of the corporation, appoint an auditor who is qualified for the purpose to carry out the examination in lieu of the auditor of the corporation and may, after the appropriate Minister has consulted the board, remove that qualified auditor at any time.

Exception

(3) Where a special examination is to be carried out in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the qualified auditor who is to carry out the special examination.

Applicable provisions

(4) Subject to subsection (5), sections 135 and 137 apply in respect of an examiner as though the references therein to an auditor were references to an examiner.

Auditor General eligible

(5) The Auditor General of Canada is eligible to be appointed an examiner and section 135 does not apply to the Auditor General of Canada in respect of such an appointment. 1984, c. 31, s. 11.

Consultation with Auditor General

Consultation with Auditor General

143. The auditor or examiner of a Crown corporation may at any time consult the Auditor General of Canada on any matter relating to his audit or special examination and shall consult the Auditor General with respect to any matter that, in the opinion of the auditor or examiner, should be brought to the attention of Parliament pursuant to paragraph 132(2)(b) or section 141. 1984, c. 31, s. 11.

Right to Information

Right to information

144. (1) On the demand of the auditor or examiner of a Crown corporation, the present or former directors, officers, employees or agents of the corporation shall furnish such

(a) information and explanations, and

(b) access to records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries

as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the directors, officers, employees or agents are reasonably able to furnish.

Idem

(2) On the demand of the auditor or examiner of a Crown corporation, the directors of the corporation shall

(a) obtain from the present or former directors, officers, employees or agents of any subsidiary of the corporation such information and explanations as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the present or former directors, officers, employees or agents are reasonably able to furnish; and

(b) furnish the auditor or examiner with the information and explanations so obtained.

Reliance on reports

(3) An auditor or examiner of a Crown corporation may reasonably rely on any report of any other auditor or examiner. 1984, c. 31, s. 11.

Policy

Restriction

145. Nothing in this Part or the regulations shall be construed as authorizing the auditor or examiner of a Crown corporation to express any opinion on the merits of matters of policy, including the merits of

(a) the objects or purposes for which the corporation is incorporated, or the restrictions on the businesses or activities that it may carry on, as set out in its charter;

(b) the objectives of the corporation; and

(c) any business or policy decision of the corporation or of the Government of Canada. 1984, c. 31, s. 11.

Qualified Privilege

Qualified privilege

146. Any oral or written statement or report made under this Part or the regulations by the auditor or a former auditor, or the examiner or a former examiner, of a parent Crown corporation or a wholly-owned subsidiary has qualified privilege. 1991, c. 24, s. 43.

Costs

Cost of audit and examination

147. (1) The amounts paid to an auditor or examiner of a Crown corporation for preparing any report under section 132, 139, 140 or 141 shall be reported to the President of the Treasury Board.

Idem

(2) Where the Auditor General of Canada is the auditor or examiner of a Crown corporation, the costs incurred by him in preparing any report under section 132, 139, 140 or 141 shall be disclosed in the next annual report of the Auditor General and be paid out of the moneys appropriated for his office. 1984, c. 31, s. 11.

Audit Committee

Audit committee

148. (1) Each parent Crown corporation that has four or more directors shall establish an audit committee composed of not less than three directors of the corporation, the majority of whom are not officers or employees of the corporation or any of its affiliates.

Idem

(2) In the case of a parent Crown corporation that has less than four directors, the board of directors of the corporation constitutes the audit committee of the corporation and shall perform the duties and functions assigned to an audit committee by any provision of this Part and the provision shall be construed accordingly.

Duties

(3) The audit committee of a parent Crown corporation shall

(a) review, and advise the board of directors with respect to, the financial statements that are to be included in the annual report of the corporation;

(b) oversee any internal audit of the corporation that is conducted pursuant to subsection 131(3);

(c) review, and advise the board of directors with respect to, the annual auditor's report of the corporation referred to in subsection 132(1);

(d) in the case of a corporation undergoing a special examination, review, and advise the board of directors with respect to, the plan and reports referred to in sections 138 to 141; and

(e) perform such other functions as are assigned to it by the board of directors or the charter or by-laws of the corporation.

Auditor's or examiner's attendance

(4) The auditor and any examiner of a parent Crown corporation are entitled to receive notice of every meeting of the audit committee and, at the expense of the corporation, to attend and be heard at each meeting; and, if so requested by a member of the audit committee, the auditor or examiner shall attend any or every meeting of the committee held during his term of office.

Calling meeting

(5) The auditor or examiner of a parent Crown corporation or a member of the audit committee may call a meeting of the committee.

Wholly-owned subsidiary

(6) Where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, subsections (1) to (5) apply, with such modifications as the circumstances require, in respect of the subsidiary as though

(a) the references in subsections (1) to (5) to a parent Crown corporation were references to the subsidiary; and

(b) the reference in paragraph (3)(a) to the annual report of the corporation were a reference to the annual report of the parent Crown corporation that wholly owns the subsidiary. 1984, c. 31, s. 11.

Reports

Accounts, etc. to Treasury Board or appropriate Minister

149. (1) A parent Crown corporation shall provide the Treasury Board or the appropriate Minister with such accounts, budgets, returns, statements, documents, records, books, reports or other information as the Board or appropriate Minister may require.

Reports on material developments

(2) The chief executive officer of a parent Crown corporation shall, as soon as reasonably practicable, notify the appropriate Minister, the President of the Treasury Board and any director of the corporation not already aware thereof of any financial or other developments that, in the chief executive officer's opinion, are likely to have a material effect on the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives or on the corporation's requirements for funding.

Reports on wholly-owned subsidiaries

(3) Each parent Crown corporation shall forthwith notify the appropriate Minister and the President of the Treasury Board of the name of any corporation that becomes or ceases to be a wholly-owned subsidiary of the corporation. 1984, c. 31, s. 11.

Annual report

150. (1) Each parent Crown corporation shall, as soon as possible, but in any case within three months, after the termination of each financial year submit an annual report on the operations of the corporation in that year concurrently to the appropriate Minister and the President of the Treasury Board, and the appropriate Minister shall cause a copy of the report to be laid before each House of Parliament on any of the first fifteen days on which that House is sitting after he receives it.

Reference to committee

(2) An annual report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to the businesses and activities of the corporation submitting the report.

Form and contents

(3) The annual report of a parent Crown corporation shall include

(a) the financial statements of the corporation referred to in section 131,

(b) the annual auditor's report referred to in subsection 132(1),

(c) a statement on the extent to which the corporation has met its objectives for the financial year,

(d) such quantitative information respecting the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives as the Treasury Board may require to be included in the annual report, and

(e) such other information as is required by this or any other Act of Parliament, or by the appropriate Minister, the President of the Treasury Board or the Minister of Finance, to be included in the annual report,

and shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation and its wholly-owned subsidiaries, if any.

Idem

(4) In addition to any other requirements under this Act or any other Act of Parliament, the Treasury Board may, by regulation, prescribe the information to be included in annual reports and the form in which such information is to be prepared. 1991, c. 24, s. 49.

Annual consolidated report

151. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause a copy of an annual consolidated report on the businesses and activities of all parent Crown corporations for their financial years ending on or before the previous July 31 to be laid before each House of Parliament.

Reference to committee

(2) An annual consolidated report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to Crown corporations.

Contents

(3) The annual consolidated report referred to in subsection (1) shall include

(a) a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation;

(b) employment and financial data, including aggregate borrowings of parent Crown corporations; and

(c) such other information as the President of the Treasury Board may determine. 1984, c. 31, s. 11.

Annual report

152. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause to be laid before each House of Parliament a copy of a report indicating the summaries and annual reports that under this Part were to be laid before that House by July 31 in that year, the time at, before or within which they were to be laid and the time they were laid before that House.

Attest

(2) The accuracy of the information contained in the report referred to in subsection (1) shall be attested by the Auditor General of Canada in the Auditor General's report to the House of Commons. 1991, c. 24, s. 44.

Appendix C

Reports of the Standing Committee on Public Accounts to the House of Commons

REPORT TO THE HOUSE

Monday, November 5, 1990

The Standing Committee on Public Accounts has the honour to present its

SIXTH REPORT

(Second Session of the Thirty-fourth Parliament)

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(e), your Committee has considered the 1988-89 Public Accounts of Canada, Vols. II and III and, in particular, controls over grants and contributions.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee sought an understanding of the nature and the adequacy of financial controls and accountability for grants and contributions. In order to give an overview of the system in place in the federal government, Treasury Board officers were invited as the first witnesses to explain the roles and responsibilities of Ministers, departments and Treasury Board in the management of grants and contributions.

4. Your Committee noted that there is less accountability for grants than for contributions. Grants are defined by Treasury Board as unconditional transfer payments, not subject to being accounted for or audited, but for which eligibility and entitlement may be verified. In contrast, contributions are conditional transfer payments for a specific purpose, subject to being accounted for and audited under a contribution agreement.

5. Treasury Board officials informed your Committee that approximately 20 per cent of the $72.6 billion allocated to transfer payments in the Main Estimates for fiscal year 1990-91 was devoted to discretionary grants and contributions. In this context, discretionary payments are those which are appropriated annually by Parliament, as opposed to statutory funding on a continuing basis.

6. In a period of high deficit spending, your Committee considers it appropriate to focus on the management of discretionary grants. The fact that grants rather than contributions are used to deliver programs implies a weaker accountability framework. Moreover, the implications of discretionary spending place an added burden on the system to ensure adequate controls, fairness and due regard for economy, efficiency and effectiveness in the face of competing demands for public funds.

7. Accordingly, your Committee held four public meetings subsequent to the initial hearing with the Treasury Board officials and invited the following departments and agencies: the Secretary of State department, the Social Sciencesand Humanities Research Council (SSHRC) and the Canada Council. Each of these agencies administers a significant program (or programs) of discretionary grants. A meeting was also held with the Auditor General to canvass the views of the Audit Office and gain an appreciation of the audit evidence in this area.

8. The Auditor General outlined a framework for the sound management of grants programs with the following major components:

(a) Because there is less accountability for grants than for contributions, grants should only be used rarely and should be reserved for situations where the payment of public funds is truly unconditional and where the use of grants is cost-effective. Otherwise contributions, with their requirement for monitoring and auditing, should be used;

(b) Granting agencies should verify both the initial and the continuing eligibility and entitlement of a recipient. The recipient should be required to provide information on how much money was spent and what it was spent on;

(c) Grants programs should have clear objectives and it should be evident how any particular grant meets that objective;

(d) Grant applications should be assessed against documented selection criteria and decisions documented to ensure fairness to all applicants;

(e) Sound financial practices should be observed. For example, payments should not be in advance of need. Management should follow-up on how much is spent and there should be reasonable assurance that funds are used for the purpose intended;

(f) There should be a periodic assessment of the continuing eligibility and need for funds of those who are receiving funding year after year; and

(g) There should be a periodic assessment of whether the program is accomplishing its objectives.

9. Your Committee strongly endorses the Auditor General's framework and has used it as a guide in the examination of granting procedures in use in the Secretary of State, SSHRC and the Canada Council. A comparison of the three agencies has yielded some insights into the adequacy of controls over grants. Each agency reflects a different form of organization. The Secretary of State is a line department, administering cultural programs, and is directly subject to Treasury Board policies. The SSHRC is a granting council with the status of departmental corporation, which promotes research and funds scholarships in the social sciences and the humanities; it too is subject to Treasury Board policies, although officials from the Board informed your Committee that the granting councils were at arm's length from central controls. In contrast to the other two agencies, the Canada Council is constituted as a Crown corporation and as such is not subject to Treasury Board controls. The Canada Council provides assistance to the arts through a variety of programs, most of which take the form of grants. The independence of the Council is reinforced by the fact that it has been exempted from the accountability and control provisions of the *Financial Administration Act* which govern other Crown corporations.

10. Your Committee's examination of controls over grants will be grouped under two headings:

A. Approval and Administration; and

B. Review and Follow-up.

A. Approval and Administration

11. In the Guide on Financial Administration issued under the authority of the Treasury Board, a number of policies are set forward which bear upon the approval and administration of grants by government departments and agencies. In their evidence before your Committee, Treasury Board officials noted the requirement for verification of eligibility and entitlement in the grant approval process. In the case of grants to a class of recipients, Treasury Board requires submissions from departments and approves terms and conditions which include a clear definition of the eligibility of recipients and the

departmental procedures, if any, for verifying eligibility and entitlement. Treasury Board policies also state that grants may have eligibility and entitlement criteria and may be restricted to specified purposes or objectives.

12. Your Committee is concerned by the somewhat permissive wording used in the Treasury Board Guide. For example, departmental procedures "if any" are required and there "may" be eligibility and entitlement criteria. In view of the importance of clearly defined criteria and effective procedures to implement them for all grants programs, your Committee considers that Treasury Board should leave no doubt as to the mandatory nature of requirements in this area.

Recommendation

13. Your Committee recommends that Treasury Board give consideration to revisions in the Guide on Financial Administration to ensure that criteria and procedures for verification of eligibility and entitlement are required for all grants.

14. Your Committee noted the importance of establishing procedures to communicate well with interest groups and the public so that when concerns or complaints arise about particular grant payments, a substantial and satisfactory response will be forthcoming from the responsible government agency. The planned initiative of the SSHRC to allow grant recipients to devote up to 10 per cent of their funds to better communicate with interested parties and with society in general is commendable.

15. Both with regard to the approval process and the monitoring of grant payments, your Committee noted a number of procedures which may be considered improvements resulting in better controls. For example, in the case of larger grants which constitute core or operational funding for recipient organizations, audited financial statements should be required.

16. Another important control which your Committee encourages and wishes to see expanded is the requirement that grant recipients agree to submit both activity and financial reports. For core funding, activity reports should focus on the extent to which the activities funded by the grant are meeting the objectives of the grant program and should be required at least at mid-term in the life of the grant and before the final instalment payment in any given year. Financial reports should be filed at the same intervals, detailing expenditures and financial information related to the viability of the recipient organization. Your Committee recognizes that such reporting requirements are feasible only for larger, operational grants. For smaller or project grants, enhanced reporting could be required only at the end of the project, before any subsequent funding of the same organization.

17. Improvements in reporting by grant recipients should be accompanied by better controls over instalment payments and selective on-site and other monitoring procedures. Your Committee noted that Treasury Board policies call for larger grants to be paid in instalments. However, greater emphasis needs to be placed on the co-ordination of monitoring, reporting and the paying out of instalments. If circumstances warrant, consideration must be given to stopping an instalment payment. Your Committee cannot agree with the statement made by Treasury Board officials, that "you do not care", when providing public money as a grant, how that money will be spent within the realm of the purposes of the recipient. As the President of the SSHRC pointed out, Treasury Board itself approves the terms and conditions for grants under which SSHRC and other agencies require reporting and control measures.

18. Cost-effectiveness is an important consideration in the upgrading of approval, reporting and monitoring requirements for grants. Your Committee therefore was concerned by the apparent lack of cost information on the processing of grants in the Secretary of State department. The department

had not examined the cost of administering operating and project grants and had not developed cost information for processing grants with widely varying dollar values.

Recommendation

19. Your Committee recommends that the Government give consideration to the following procedures in the administration of grants in departments and agencies:

(a) enhanced communication with interest groups and the public;

(b) the requirement for audited financial statements;

(c) the requirement of activity and financial reports together with acceptance of monitoring as criteria of eligibility;

(d) co-ordination of the payment of subsequent instalments with requirements for reporting and monitoring where it is cost-effective to do so; and

(e) implementation of reporting, monitoring and instalment controls on the basis of appropriate cost information.

B. Review and Follow-up

20. Granting agencies exercised differing reporting and review procedures at the end of the tenure of a grant. At Secretary of State, recipient organizations submit an activity report on the extent to which their objectives were met. At SSHRC, officials indicated that greater emphasis is being placed on the reporting of results from grants. While at the Canada Council, recipients are asked to submit a final report commenting on what the grant permitted them to do and whether the artistic work in question was being exhibited, published, performed, etc. The SSHRC and the Canada Council stated that these final reports were used to follow-up on grants; while the Secretary of State did not carry out such follow-ups, it was stated that the activity reports were used to assess renewals, as was the case for the other two agencies.

21. Your Committee noted that many discretionary grants, notably those given for core funding, appear to be renewed year after year. Based on the testimony it has heard, your Committee considers that granting agencies need to augment their review procedures for long-term or continuing renewals. Also, it is not enough for an agency to portray itself as a "facilitator" that does not interfere in the content of selections but relies instead on a peer review process.

Recommendation

22. Your Committee recommends that the Government give consideration to requiring all granting departments and agencies to submit to Parliament, in Annual Reports or Part III of the Estimates, triennial reports analyzing repeat grant funding in terms of competing demands for scarce resources, benefits to Canada and to the recipient. This requirement should be applied in a cost-effective manner to larger grants.

23. The existence of an active program evaluation capability in each of the three granting agencies before your Committee is an encouraging sign of review and assessment at the program level. Both SSHRC and Secretary of State have well-established program evaluation units which are carrying out evaluations of grants programs on a cyclical basis. The Canada Council stated that some program

evaluations have been completed and that a formal evaluation plan was being developed for implementation as resources permit.

Recommendation

24. Your Committee recommends that the Government give consideration to ensuring that:

(a) all departments and agencies which administer grants programs establish a program evaluation function as described in Treasury Board policies;

(b) all grants programs be subject to program evaluation on a cyclical basis; and

(c) sufficient resources be provided for the implementation of this recommendation.

25. Your Committee compared the policy on recoveries in the SSHRC with the Secretary of State. In the case of SSHRC, when the term of a grant has expired the Council may request a refund of any balance or of funds allocated to ineligible items. In contrast, the Secretary of State officials informed your Committee that no refunds were sought for grants on the grounds that grants are not accountable. If a grant recipient did not use or misdirected funds, the Secretary of State department would attempt to uncover this fact in its review of any subsequent application, based on the financial statement required and the activity report from the initial grant. While the detection of ill-used funds may not be cost-effective except in the case of very large grants, your Committee considers that recipients should have a duty to report and government agencies a duty to collect unspent balances.

Recommendations

26. Your Committee recommends that the Government give consideration to requiring all granting departments and agencies to recover unused portions of grants from the recipients.

27. Your Committee recommends that Crown corporations which administer major grant programs, such as the Canada Council, implement recommendations 19, 22, 24 and 26 above.

28. Your Committee requests the Government to table a comprehensive response to this report in accordance with Standing Order 109.

A copy of the relevant *Minutes of Proceedings and Evidence (Issues Nos. 26, 32, 33, 34, 35 and 39, which includes this report)* is tabled.

Respectfully submitted,

LEN HOPKINS,

Chairman.

REPORT TO THE HOUSE

Monday, November 5, 1990

The Standing Committee on Public Accounts has the honour to present its

SEVENTH REPORT

(Second Session of the Thirty-fourth Parliament)

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(e), your Committee has considered the Annual Report of the Auditor General for the fiscal year ended March 31, 1989 and, in particular, paragraphs 1.168 to 1.184, as well as past Auditor General's reports, relating to personnel issues and the reform of the Public Service.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Throughout the 1980s, your Committee considered a number of issues related to the sound management of human resources in the Public Service. High on the list of concerns have been the need to improve systems for staffing and job classification and the need to clarify the roles and responsibilities of the government agencies involved. Each of these concerns has been the subject of a report to the House. Many of these issues remain unresolved and your Committee continues to seek their resolution. Recently, however, the frame of reference for your Committee's concerns changed. In his 1989 Annual Report, the Auditor General brought together a number of themes from several years' audits and called for an overall reform of the legislative and administrative structure that governs people in the Public Service.

4. Your Committee decided to turn its attention to the Auditor General's findings and hold a series of hearings on the reform of the Public Service. There are a number of compelling reasons for such an inquiry. First of all, the Public Service is an important institution that affects the lives of all Canadians. Approximately 240,000 Canadians are employed in the Public Service and all manner of important services and government programs are delivered through their efforts. Consequently, the need for far-reaching reform in the Public Service is a matter of great concern to all citizens and to Parliament. Secondly, it has become clear that there is a serious morale problem among public servants. Several important studies and the evidence heard by your Committee have confirmed the depth and the breadth of motivational and attitudinal problems. Morale requires urgent attention if the level and quality of service provided to the public is to be maintained and improved. A third factor is the initiative recently taken by the Government to establish "Public Service 2000", an agency with the mandate to study reform-related issues. Through the work of ten task forces, Public Service 2000 is dealing with a wide range of human resource concerns, from staffing and classification to training and development. Public Service 2000 was created in December, 1989 and is intended to put forward proposals for legislative, institutional and attitudinal change.

5. Your Committee held six public meetings and heard witnesses representing both management and the Public Service unions. A number of objectives were set for these meetings: (1) to follow up on the Committee's recommendations in earlier reports to the House; (2) to receive an accounting from the senior officials of the responsible government agencies with respect to the need to improve the management of human resources; and (3) to review the plans, objectives and progress of Public Service 2000. Throughout its hearings, your Committee focused on economy, efficiency and effectiveness in the management of human resources. An equally important theme was the continuing

requirement for senior officials to be accountable to Parliament and to your Committee for the stewardship of public funds and for the management of people - the most important resource of all.

6. Based on the testimony, your Committee has arrived at a number of conclusions and recommendations in various areas of human resource management. However, your Committee does not wish to anticipate legislative reform and will therefore not undertake a systematic review of the legislation. The House has not given your Committee such a mandate. Nor has your Committee been authorized to examine employer-employee relations in the Public Service. Consequently, issues such as the design of the collective bargaining system are beyond your Committee's purview.

7. Your Committee considered the Auditor General's observations on the need for reform. The Auditor General identified five areas:

(a) the current legislative and administrative framework is not adapted to the environment and challenges facing the Public Service today;

(b) the need to streamline processes, notably job classification, staffing and procedures to handle poor performers;

(c) the need to eliminate unreasonable constraints, devolving more meaningful authority to departments and front-line managers, while ensuring proper rendering of accounts;

(d) the provision of clear and visible leadership, a focal point and overall accountability for the management of people; and

(e) there is a need for a change in mindset or attitudes at various levels.

8. A number of these areas relate to the conclusions and recommendations of your Committee's earlier reports to the House. Another relates to the important need to deal with the morale problem. Your Committee will comment on each one. However, there is a matter of prior concern which involves the process followed by Public Service 2000.

PROCESS

9. The officials responsible for Public Service 2000 laid before your Committee far-reaching objectives for reform of personnel management in the Public Service. In order for Public Service 2000 to be successful in attaining these objectives, it is important that the process followed be open and fair and give the interested parties ample opportunity for the expression of their views.

10. Your Committee considered the process as it presently stands. Public Service 2000 was announced by the Prime Minister on December 12, 1989. A small secretariat has been established as an arm of the Privy Council Office to co-ordinate the work of ten task forces, in the following areas: (1) occupational and classification structure; (2) compensation and benefits; (3) staffing; (4) staff relations; (5) work-force adaptation; (6) resource management; (7) administrative policies and common services; (8) the management category; (9) service to the public; and (10) staff training and development. Task forces were chaired by senior deputy ministers and composed of small numbers of senior officials. For example, the task force on staff training and development involved ten senior officials from different departments as members and six "ex officio" members, including representatives of Treasury Board and the Public Service Commission (who provided support for each task force). The responsible officials clearly stated to your Committee that Public Service 2000 was "management-driven", an exercise controlled by management at the request of the Prime Minister and responsible to

him for its results. No front-line managers or employees served on any of the task forces; nor did representatives of the Public Service unions.

11. The time frame for the completion of Public Service 2000 is tight. After less than three months' work, the task forces came up with a series of remedial measures that could be implemented without legislative change. These "quick fixes" were explained to your Committee in a status report which was conveyed under covering letter from the President of the Treasury Board. It is a matter of concern from the standpoint of accountability to Parliament that this status report was not also tabled in the House. The second phase of Public Service 2000 has been the completion of the final reports of all the task forces over the summer. Because several areas covered by different task forces overlap, there must also be a process of reconciliation and synthesis to develop the final recommendations for legislative change. These recommendations are to go forward to Ministers and amendments are to be introduced in the House in the New Year. Your Committee has also received a series of discussion reports from the task forces.

12. Your Committee asked the officials to explain the nature of their consultations with the Public Service unions, with employees at all levels and with the private sector, including large corporations, academics and other interested bodies. Vigorous representations were also heard from several of the Public Service unions, who informed your Committee that the consultative process followed by Public Service 2000 was not acceptable to them.

13. A wide range of consultative procedures were cited by Public Service 2000. There have been several meetings with the Public Service unions and officials stated that the unions had participated in discussions with all of the task forces and that their input was taken seriously. However, union representatives have at times taken issue with the testimony of these officials, saying that consultations had not been meaningful and had consisted of informing them after-the-fact rather than an effort to help formulate conclusions and recommendations. Further consultations with the unions have taken place in relation to the task force reports released in August and September.

14. Among the other consultations carried out with employees have been focus groups, questionnaires and other surveys. A great deal of information has also been submitted by employees in response to an invitation issued by Public Service 2000 to say what is wrong with the Public Service and how improvements can be made. However, your Committee noted that employees may be constrained in responding to representatives of management on such matters.

15. Consultations with major private sector employers were also cited. A number of important parallels exist between human resource management in these organizations and in the Public Service. In sum, within the bounds of the process followed by Public Service 2000 as a management-driven exercise, there appear to have been extensive consultations. However, your Committee must question both the design of the process and the haste with which it is being carried out.

16. As the Economists', Sociologists' and Statisticians' Association pointed out, previous major reforms of the Public Service have been based on extensive studies and have involved open, public consultations under the aegis of a third party prior to the introduction of legislation in the House. In contrast, Public Service 2000 is being run by senior management, behind closed doors, in the absence of neutral, third party involvement and to a demanding schedule.

17. Your Committee considers that there is a need to pause once the task force recommendations have been put in final form, before proceeding with the introduction of legislative amendments in the House. The process of Public Service 2000 must be changed to allow for meaningful and open consultation, with greater involvement of front-line employees.

Recommendations

18. Your Committee recommends that the Government give consideration to:

(a) tabling a discussion paper prior to proceeding with the introduction of legislative amendments and/or administrative changes and that this discussion paper set out the principal conclusions and recommendations arising from Public Service 2000;

(b) referring the aforementioned discussion paper to a Special Committee of the House on Reform of the Public Service and that the Special Committee conduct a consultation process involving employees, the Public Service unions and other interested parties and report back to the House within a reasonable period; and

(c) responding to recommendations 18(a) and (b) above in writing by November 30, 1990, notwithstanding the provisions of Standing Order 109, in view of the immediacy of this matter.

MORALE

19. Among the most important attributes of organizations that perform well, as identified in the Auditor General's 1988 study, are an emphasis on people and a set of attitudes that enable employees to seek optimum performance. People who are challenged, encouraged and developed will hold values that drive them to always seek improvement in their organization's performance. The importance of morale in sustaining and developing organizational performance cannot be understated. The evidence presented to your Committee of a serious deterioration in morale in the Public Service suggests that a priority must be placed on the search for workable solutions that will improve motivation and attitudes.

20. Public Service 2000 has acknowledged that 60 per cent of the reform needed in the Public Service lies in attitudinal change. Numerous surveys, including authoritative, scientific studies, indicate problems in the areas of work values, leadership, rewards and the quality of the work environment. The Auditor General noted the tendency towards risk aversion, the failure to take responsibility for decisions and the growth of attitudes of scepticism and cynicism. Senior officials pointed to the stress and heavy workload in difficult departments such as National Revenue - Taxation and Employment and Immigration. In some cases, poor morale has led to inefficient, indifferent and even discourteous service to the public. The Public Service unions placed emphasis on the negative effects of the government's restraint program on morale. A survey conducted by the Public Service Alliance found that many public servants expressed concerns over such morale-related issues as job satisfaction, lack of promotion, privatization, poor management, a poor perception of the Public Service, stress, working conditions, workload and reclassification.

21. In addition to job classification and staffing, which your Committee has considered in earlier reports and which will be discussed below under that heading, a number of significant morale-related matters have arisen in the testimony, including:

(a) contracting-out;

(b) aspects of pay and benefits;

(c) procedures to deal with poor performers; and

(d) training.

(a) Contracting-Out

22. Your Committee examined the human resource aspects of the increasing use of contracts of all types in government departments. A clear connection has been drawn between contracting-out and the government's program to reduce the size of the Public Service over the last five years. Officials of the Treasury Board referred your Committee to Part I of the 1990-91 Main Estimates, where contracting-out was cited as one of the measures used to meet person-year reduction targets. Your Committee asked the Treasury Board Secretariat to provide data which would help to explain the increased reliance on contract workers. In particular, a question was posed on the extent to which people hired on a personal service contract basis carried out work that was previously done by public servants. Treasury Board Secretariat replied that it did not collect such data, nor did departments.

23. It is clear to your Committee that departments routinely enter into contracts with individuals, with consulting firms, with agencies and so on for work that could be done by public servants. However, the extent of the substitution effect is not revealed in the Estimates or in the Public Accounts. Your Committee was not satisfied with Treasury Board Secretariat's inability to supply information on the use of personal service contracts. Your Committee considers that a full report to Parliament on contracting-out should be included in the Estimates to ensure that departments and agencies are held accountable for all human resource expenditures. The fact that individuals are not counted as filling person-years because they are paid through contracts should not camouflage the nature of the expenditure of public funds.

24. Your Committee noted the criticism of person-year controls voiced by officials of Public Service 2000. The system of double budgetary controls, through the allocation of both funds and person-years, which are average levels of personnel resources authorized for departments over a one-year period, is seen to be inefficient and inflexible because the ability to hire staff depends on the availability of person-years, not money. Your Committee agrees that person-years should be dropped; certainly their use in the Estimates is confusing and does not help Parliamentarians get a clear picture of government spending.

Recommendations

25. Your Committee recommends that the Treasury Board Secretariat and the Office of the Comptroller General:

(a) ensure that departments and agencies fully disclose expenditures on contracts which replace the work of public servants in Part III of the Estimates; and

(b) ensure that departments and agencies report the services of individuals on contract.

26. Your Committee noted the connection between the cost effectiveness of contracting-out and its impact on morale. In the absence of reliable data, your Committee can only consider impressions conveyed in the testimony. However, it would appear that government should only use outside contactors to replace public servants where cost-effectiveness has been clearly demonstrated, taking into account the negative effects on public servants' morale. Among the concerns raised by the Public Service unions were the following:

(a) the costs and delays of administering contracts in accordance with complex government regulations;

(b) the need to retain professional staff who can understand the contractors' work and are capable of doing it themselves, so that results can be interpreted and senior officials and ministers briefed;

(c) the decline in the professional standing of public servants who spend more and more of their time managing contracts and less time doing the studies themselves;

(d) the extensive use made by contractors of in-house work; and

(e) the fact that contractors take their expertise with them when the contract is completed and leave no lasting store of knowledge in the department.

Recommendation

27. Your Committee recommends that the Auditor General examine the cost-effectiveness of contracting-out, including its impact on morale, in future comprehensive audits of government departments and agencies.

(b) Pay and Benefits

28. The findings of the Auditor General and the activities of Public Service 2000 in areas such as performance pay and the incentive award system may provide the basis for worthwhile improvements in public servants' morale. For example, the Auditor General informed your Committee that the Suggestion and Merit Award programs were not being used to their potential, based on his 1989 audit. Public Service 2000, as part of the first round of administrative changes made public on April 30, 1990, suggested an expansion in the incentive award system, which has been agreed to by Treasury Board. Your Committee looks forward to the Auditor General's follow-up audit of the incentive award system to confirm the effectiveness of these measures.

29. In his audit of the management category, the Auditor General found that many people in the executive and senior management ranks do not believe that there is a relationship between what they are paid and how well they perform. They do not feel that the highest pay increases are generally awarded to individuals who perform best on the job. Much of the testimony from the Public Service unions underlines the Auditor General's findings and suggests that the problem is by no means confined to management ranks. For example, an honest appraisal was termed the "kiss of death" for promotion opportunities because job evaluation ratings are typically greatly inflated. Employees who are simply doing their job well and rated as fully satisfactory would not be considered for promotion unless their rating improved to "superior" or the highest grade, "outstanding". Appraisal criteria were also considered to be unevenly applied and not transparent to employees.

30. Your Committee noted that Public Service 2000 placed emphasis on performance-pay systems and on the need to overhaul and strengthen appraisal systems. Treasury Board introduced a new performance pay plan on April 1, 1990, which it claimed would significantly increase flexibility for deputy ministers to reward performance. However, in his audit of the management category, the Auditor General documented a series of questionable practices relating to performance pay and the performance ratings used to determine performance pay. The Auditor General concluded that pay for performance has been a major source of dissatisfaction. It remains to be seen if the Treasury Board's new system will correct these deficiencies. Equally important, will major improvements be made in performance appraisals and ratings on which performance pay is based? Your Committee will monitor Treasury Board's progress in this regard.

31. In other areas, your Committee noted that significant opportunities exist to improve benefits and correct inequities. For example, the spouses of foreign service officers and of members of the Canadian Armed Forces are not eligible to collect unemployment insurance in the event of a foreign posting. These individuals often leave a job when they go overseas with no compensation at all, in spite of having paid unemployment insurance premiums. Nor are they eligible for benefits upon returning to Canada if they have been abroad for more than one year.

(c) Dealing with Poor Performers

32. The Auditor General informed your Committee that existing procedures and the legislative framework for dealing with unsatisfactory performance in the Public Service are damaging to both management and the employee. The approach taken to poor performance is based either on merit and competence or on discipline. The process for discipline is completely different from the process for incompetence, with different redress mechanisms. This puts the wrong focus on the problem, with a search for the cause and the consequent choice of the correct process; cases can take a number of years to resolve with the employee continually having to defend his or her performance before a variety of administrative tribunals. The Auditor General suggested that the process be streamlined by replacing some of the existing legislative provisions with an inability to perform clause.

33. The Public Service unions also expressed dissatisfaction with the procedures used to handle poor performers, but for different reasons. The Public Service Alliance, for example, argued that existing provisions for demotion, release, lay-off or rejection on probation favoured management and provided more than sufficient avenues to terminate employees.

34. Your Committee asked for a comparison with the private sector. Officials from Public Service 2000 noted that the Public Service took longer than the private sector both to decide to dismiss someone and then to carry it out. In large private sector corporations, the decision to release an employee is often carried out very quickly. Your Committee wishes to emphasize the importance of protecting the employees' rights and therefore of maintaining appropriate redress mechanisms and third-party reviews. At the same time, however, the process needs to be clarified so that employer and employee know when the issue centers on performance, rather than competence or discipline.

Recommendation

35. Your Committee recommends that the Government give consideration to amending the legislative provisions governing the termination of Public Service employees in order to replace the appropriate provisions by an inability to perform clause.

(d) Training

36. Although Treasury Board Secretariat informed your Committee that Public Service training expenditures compared favourably with the private sector, Public Service 2000 officials raised questions about the level of investment in training in light of changes in the work force. There is a need for readjustments to compensate for lower levels of recruitment from universities and the prospective retirement of large numbers of senior managers and executives from the Public Service by the year 2005. The data provided to your Committee also indicated substantially greater expenditures on training in departments such as Transport Canada and Customs and Excise, which have highly specialized training requirements. The average training expenditure per employee in Transport Canada was approximately seven times larger than in Employment and Immigration, for example, in 1987-88. Many departments, with large numbers of employees, spend no more than $200 per year per employee, in the estimation of Public Service 2000. Your Committee considers that such levels of training

expenditures are inadequate. An important outcome of Public Service 2000 should be a review of the government's training priorities.

EARLIER COMMITTEE REPORTS

37. Your Committee asked the Public Service Commission and the Treasury Board Secretariat to provide an update on their responses to the recommendations contained in three earlier reports: the Seventeenth Report, on Payroll Costs Management, tabled July 30, 1982 (1st Session, 32nd Parliament); the Seventh Report, on the Management of Job Classification, tabled October 7, 1985 (1st Session, 33rd Parliament); and the Tenth Report, on the comprehensive audit of the Public Service Commission, tabled April 30, 1986 (1st Session, 33rd Parliament).

38. Three important issues have arisen in connection with these earlier reports on human resource management:

(a) staffing - the need to simplify the process while at the same time taking care to maintain the merit principle and employees' rights;

(b) job classification - the need to streamline the system in conjunction with staffing; and

(c) roles, responsibilities and accountability - the need to clarify the division of responsibilities between the Public Service Commission and the Treasury Board Secretariat, to provide leadership and overall accountability for the management of people.

(a) Staffing

39. The Public Service Commission updated its responses to your Committee's major recommendations on staffing, namely: the simplification and condensation of staffing rules, the improvement of the monitoring of staffing activities delegated to departments, and the reduction in the average amount of time required to staff a position. While there have been notable improvements in some areas, such as the simplification of selection standards, which have been attested to by the Auditor General, your Committee noted that the average amount of time needed to staff a position in the Public Service, at 105 days for an internal competition, was still too long and did not compare favourably with certain Crown corporations which averaged approximately 60 days.

Recommendation

40. Your Committee recommends that the Public Service Commission reduce the average amount of time needed to staff a position in the Public Service and that the Auditor General follow up on this matter in his next comprehensive audit of the Commission.

41. One aspect of the application of the *Public Service Employment Act* is of particular concern to your Committee. The use of exclusion orders by the Public Service Commission has grown over the last few years, particularly in the hiring of temporary employees for six months or less. An exclusion order excludes persons, positions or classes of positions from the operation of the Act where the Commission considers it is not practicable or in the best interests of the Public Service to apply the Act. In effect, exclusion orders deny temporary or term employees access to permanent jobs through internal competitions, place them outside the merit system and cut them off from the rights that indeterminate employees enjoy under the collective bargaining system. Term employees are often skilled and knowledgeable workers who have many years experience. Your Committee considers their exclusion from internal competitions and other rights and privileges of permanent employees deplorable and unjust.

Recommendation

42. Your Committee recommends that the Public Service Commission review the use of exclusion orders and ensure that term employees are allowed access to internal competitions on the same basis as indeterminate employees.

43. The Auditor General has called for a review of the *Public Service Employment Act* to reassess the balance between the protection of the merit principle and the attainment of greater efficiency through more flexible and adaptable human resource management. Your Committee agrees with the need for such a review and the need to consider alternatives to the present staffing system, such as greater use of staffing to level. However, your Committee wishes to restate a fundamental concern raised in its earlier reports, which is the importance of the merit principle in the selection of the best qualified candidates without discrimination or favoritism. Reforms in the staffing process need to be accompanied by appropriate measures to protect the application of merit.

(b) Job Classification

44. When your Committee last reported on job classification in 1985, there was an urgent need to improve quality controls over the making of classification decisions because of the large number of misclassified positions then in evidence. Treasury Board Secretariat has since reported a reduction in the numbers and costs of classification errors, based on the 1988-89 review of departmental classification activities. The Secretariat also reported progress in the revision of classification standards, although the Auditor General informed your Committee that this seems to have taken longer than anticipated, with only 46 of 69 classification standards reviewed to date.

45. Your Committee also noted the views of the Public Service Alliance of Canada that Treasury Board had not yet revised classification standards for two of the largest occupational groups, the clerical and secretarial groups, and was taking too long to complete these classification reviews, in some cases up to 10 years.

Recommendation

46. Your Committee recommends that Treasury Board Secretariat complete the revision of all classification standards and ensure that these standards are reviewed on a five-year cyclical basis.

47. In 1985, your Committee recognized the impact of the classification system on morale and productivity in the Public Service. Job classification as it presently stands is a complex, unwieldy system with some seventy occupational groups, each with many levels; thousands of classification decisions are being made every year. Vertical barriers are created between public servants that are at odds with career development, with motivation of staff and with overall sound human resource management. There are pervasive linkages with staffing, because the completion of a staffing action normally requires the availability of a duly classified position. Both staffing and classification have been identified by the Auditor General as major constraints to productive management in the Public Service because they are overly complex, over-regulated and time-consuming. Moreover, your Committee noted the concerns of the Public Service unions that the classification system needs to be made free from gender-based discrimination and must recognize the impact of technological change on work processes and procedures.

48. The need to streamline the classification system, to reduce the number of occupational groups and levels and simplify job descriptions, was cited by representatives of Public Service 2000. In particular, one of the outcomes of Public Service 2000, if it is successful, is seen to be a reduction in

the number of levels or management. A more fluid management structure has been the key to reform in other jurisdictions and in large private sector organizations studied by Public Service 2000. The Auditor General has also pointed out that the classification structure does not provide a clear identification of the management cadre, based on his audit of the management category.

49. While the need for major changes in the classification system is apparent, your Committee considers that great care should be taken in how these changes are made. The review of the *Public Service Staff Relations Act*, which is a major part of the legislative framework for job classification, will be difficult, involving sensitive consultations with the Public Service unions. Additionally, the rationalization of occupational groups should not be used as an excuse to demote or dismiss public servants. A priority also needs to be placed on fairness and equity issues and equal pay for work of equal value. All of these considerations underline the importance of your Committee's recommendation, made earlier in the Report, that the process of Public Service 2000 be altered to ensure meaningful consultations with all interested parties.

(c) Roles, Responsibilities and Accountability

50. When your Committee reported on payroll costs management in 1982 and on the Public Service Commission in 1986, one key concern was accountability from departments and agencies through the Commission and Treasury Board Secretariat for delegated authorities in a variety of human resource areas, including staffing, classification and training. In view of the greater emphasis being placed on delegation of authority to departments and empowerment of senior managers within departments, your Committee considers that equal attention must be paid to workable accountability mechanisms. The Auditor General continues to find, based on his audit evidence, that there is not effective monitoring, rendering of accounts or evaluation of effectiveness in many instances of delegation of human resource authorities.

Recommendation

51. Your Committee recommends that the Public Service Commission and Treasury Board ensure that every authority delegated to departments and agencies is accompanied by appropriate and effective accountability mechanisms.

52. Another basic concern of your Committee is the development of a clear and effective division of responsibilities between the Public Service Commission and Treasury Board Secretariat. Equally important is the creation of a focal point for visible leadership and overall accountability for the management of people. Your Committee has twice recommended that the central agencies resolve problems of overlapping responsibilities and yet the Auditor General continues to find a lack of clarity in the respective roles of the Commission, the Board and the Privy Council Office. For example, staff training and development is subject to Treasury Board Secretariat's policy guidelines and has been delegated to the Commission, for management and special area training, and to departments for line training functions. To what extent should the Public Service Commission, which is responsible to Parliament as a guardian of merit, be involved in activities that relate to management's prerogatives such as the responsibility to develop people and provide training to employees? Such questions need to be high on Public Service 2000's agenda.

53. Several Public Service unions expressed a lack of confidence in the ability of the Public Service Commission to monitor the staffing process and correct abuse in departments; they called into question the role and continued existence of the Commission.

54. Your Committee wishes to emphasize the importance of clarifying the jurisdiction and responsibilities of the Public Service Commission. As the Auditor General pointed out, the Commission

is trying to carry out several somewhat contradictory roles: it is responsible to Parliament in relation to merit, but at the same time tries to be sensitive to management in terms of operational efficiency and simplifying staffing processes. In addition, overlaying these other roles, the Commission is trying to project an image to employees as a defender of their rights against potential abuse by management.

Recommendation

55. Your Committee recommends that the Government give consideration to clarifying the roles and responsibilities of the Privy Council Office, the Public Service Commission and the Treasury Board Secretariat in relation to human resource management.

56. Your Committee requests a Government response to this Report in accordance with Standing Order 109. The Public Service Commission is requested to reply to the recommendations addressed to it on the same basis. The response to recommendation 18 above is requested on an urgent basis, by November 30, 1990, and is therefore not to be included with the responses sought under Standing Order 109.

A copy of the relevant *Minutes of Proceedings and Evidence (Issues Nos. 28, 29, 30, 36, 37, 38 and 40, which includes this Report)* is tabled.

Respectfully submitted,

LEN HOPKINS,

Chairman.

REPORT TO THE HOUSE

Friday, December 14, 1990

The Standing Committee on Public Accounts has the honour to present its

EIGHTH REPORT

(Second Session of the Thirty-fourth Parliament)

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(e), your Committee has considered the Annual Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1989 and, in particular, Chapter 6 - Denial of Information Required to Audit Ministers' Travel Expenses.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

Background

3. In 1989-90 the Auditor General had planned to conduct a government-wide audit of expenses claimed by Ministers for government travel and their use of Administrative Flight Services - AFS aircraft. In April 1989, the Auditor General asked for access to travel receipts held in ministerial offices and to original requests in writing by Ministers for use of AFS aircraft. Both requests of the Auditor General were denied in a letter to him, dated June 13, 1989 from the Privy Council Office. As a result of these two refusals, the Auditor General decided not to proceed with the audit and instead reported the matter to Parliament in accordance with section 7(1)(b) of the *Auditor General Act*.

4. In the case of the first request of the Auditor General, namely, the access to travel receipts held in ministerial offices, Ministers are required by virtue of a 1963 Cabinet decision, only to provide a certificate stating their expenditures to secure reimbursement; they are not required to submit nor maintain any receipts with respect to such expenditures. With respect to the Auditor General's second request, the Government advised through the Deputy Clerk of the Privy Council that the original letters between Ministers and the Minister of National Defence would not be made available to Parliament's auditor.

5. On August 10, 1989, the Supreme Court of Canada ruled that in the event of a denial of access to information required by the Auditor General to fulfil his audit responsibilities, the ultimate remedy provided in the *Auditor General Act* is to report to the House of Commons. This he did at the earliest opportunity in his Annual Report on October 24, 1989.

6. Your Committee considered this denial of access to information by the Government to be a most serious matter. It is the second time that the Office of the Auditor General has been denied information. As a result, your Committee felt it necessary to hold two meetings with senior officers of the Auditor General's Office, the Privy Council Office and the Office of the Comptroller General to examine the issues surrounding the circumstances for this denial of access to information and to report its conclusions to the House of Commons.

Nature of the Audit and the Request for Information

7. The Auditor General clearly stated before your Committee that his proposed audit of ministerial travel expenses would have been an attest and authority audit and not a value-for-money audit. This would mean that the scope of such an audit would be in accordance with section 7(2)(a), (b) and (c) of the *Auditor General Act*. This was later confirmed in a letter from the Auditor General to your Committee on April 20, 1990 where he stated that such sections are similar to those that have governed the Audit Office since it was established in 1878.

8. To undertake an attest and authority audit of Ministers' reimbursable expenses, the Auditor General informed your Committee that he would have to determine whether:

(a) accounting data was accurate and reliable;

(b) funds were spent for the purposes authorised by Parliament;

(c) supporting documentation for claimed expenses was adequate;

(d) internal control systems were adequate to protect against error or irregularity;

(e) in the case of exempt staff and public servants, funds were spent and accounted for in accordance with Receiver General regulations and Treasury Board travel policies;

(f) in the case of Ministers, funds were spent and accounted for in accordance with applicable Receiver General regulations, and Treasury Board, Privy Council Office and Prime Ministerial directions;

(g) funds were spent and accounted for in accordance with the *Financial Administration Act*; and,

(h) reporting of travel expenditures in the Public Accounts was accurate and in accordance with Receiver General directives.

Furthermore, this audit of Ministers' expenses would involve a review of controls and a testing of a sample of transactions. This would involve access to ministerial travel receipts and other supporting documentation held in Ministers' offices and government departmental files.

Denial of Access to Ministerial Travel Receipts

9. Your Committee considers the denial of access to ministerial travel receipts by the Government to the Office of the Auditor General to be a serious infringement of the rights of the Auditor General as it in effect limits the Auditor General's ability to fulfil his statutory responsibilities under the *Auditor General Act*. Consequently, such a denial of access to information undermines and weakens the financial process by which the House of Commons can hold the Government accountable for its expenditures. Such a denial, in your Committee's view, sets a very untimely and dangerous precedent and erodes Parliament's control of the public purse.

10. Your Committee examined the honour system approved by Cabinet in 1963 in which Ministers should account for moneys advanced and expended for travelling on official business. Your Committee noted that only a statement for transportation and other expenses for each trip, certified by the Minister, was required.

11. In a letter, dated January 17, 1990, the Auditor General informed your Committee that, following the recent action of the Government of the Province of Manitoba, the Government of Canada is the sole Canadian jurisdiction where Ministers' travel expenses are accounted for on an honour basis. All other jurisdictions in Canada are now on a system requiring ministerial travel receipts that are subject to audit by the legislative auditor.

12. Your Committee also noted that the Treasury Board Guidelines for Ministers' Offices, issued in November 1988, stated that "even though Ministers do not have to provide receipts and supporting documentation, it would be prudent to maintain such information in Ministers' offices for audit purposes" (page IV - I). Your Committee observed that these Guidelines were subsequently amended in September 1989 and the words "for audit purposes" were deleted.

13. Your Committee concludes that with the present honour system for ministerial travel, Parliament has no assurance that it is not subject to abuse. Furthermore, without ministerial travel documents being subject to audit by Parliament's auditor, it places a very great burden of trust on each Minister. Your Committee believes that all parliamentarians, including Ministers, should be subject to the same audit guidelines for travel expenses as those promulgated for Members of Parliament and officials by Treasury Board and which is now the practice in all provincial jurisdictions in Canada.

Accountability

14. Your Committee strongly supports the principle of holding Ministers accountable for their expenditures as a vital means for Parliament's control of the public purse. Audit is a critical function in this accountability process, for without audit, how can Members of Parliament be assured that all expenditures are spent in accordance with parliamentary authority? In your Committee's view, only the Auditor General can provide Parliament with that practical assurance.

15. Your Committee heard testimony from the Clerk of the Privy Council that Ministers in the Canadian political system are not accountable to departmental officials. They are accountable to the Members of the House of Commons and more generally to the Canadian public. In his view, such accountability takes place only in the House of Commons and without audit, because Ministers are not accountable to the Auditor General.

16. Your Committee strongly disagrees with this argument of the Clerk of the Privy Council. It is simply not realistic nor practical to question Ministers in the House of Commons on the detailed travel expenses without an independent audit report of the Auditor General.

17. Full disclosure in the Public Accounts of Canada of ministerial travel expenses is, in your Committee's view, another important financial control in the parliamentary accountability process. Your Committee reviewed the President of the Treasury Board's Report on Ministerial Travel Expenses for the period ending September 30, 1990 which was issued on October 29, 1990. Your Committee concludes that although the report provides Parliament and the Canadian people with information on travel expenses of Ministers and Parliamentary Secretaries in aggregate form, it does not disclose the breakdown of these expenses that would provide Parliament with a complete accounting of ministerial travel.

Costs of Administrative Flight Service (AFS) Aircraft

18. The Auditor General informed your Committee that the full costs of operating the AFS aircraft, either in total or by Minister, are not disclosed to Parliament. Consequently, the President of the Treasury Board in October 1989 undertook to provide an accounting for the Administrative Flight Service managed by the Department of National Defence which was reported to your Committee on

June 18, 1990. Subsequently, on October 29, 1990 your Committee received a report for the period from April to September 1990 on the use of Challenger aircraft by the Department of National Defence in which the incremental cost for each trip is shown.

19. Your Committee examined the above reports and concluded that without an audit by the Auditor General of the full costs of operating the AFS aircraft of the Department of National Defence, your Committee is not adequately assured that such costs are accurately disclosed to Parliament.

Lack of Responsiveness to Committee's Requests

20. Finally, your Committee is concerned about the length of time it took for the President of the Treasury Board and his officials to respond to requests made by the Chairman on behalf of the Committee. Since October 25, 1989, your Chairman repeatedly asked for the release of the two reports promised in the House by the then President of the Treasury Board. These reports were not issued until June 18 and October 29, 1990, respectively. Your Committee is concerned about this lack of responsiveness.

21. Recommendations:

Your Committee therefore recommends that:

(a) the Government consider revoking the honour system for ministerial travel established by the Cabinet in 1963 and replace it with similar financial procedures and controls now in use by Members of Parliament and public officials;

(b) the Government consider revising its Guidelines for Ministers Offices to ensure that receipts and supporting documentation be maintained and made available for audit purposes;

(c) the Government consider allowing the Auditor General access to ministerial travel receipts to the extent that he can discharge his statutory duties by means of an authority and attest audit of the Accounts of Canada under the *Auditor General Act*;

(d) the President of the Treasury Board consider the implementation of recommendations 21 (a) to (c) inclusive to take effect in fiscal year 1991-92; and respond to your Committee in writing by March 31, 1991; and

(e) the Auditor General consider including in his plans for 1991-92 a comprehensive audit of the Administrative Flight Service of the Department of National Defence.

A copy of the relevant *Minutes of Proceedings and Evidence (Issues Nos. 17, 19 and 43, which includes this report)* is tabled.

Respectfully submitted,

LEN HOPKINS,

Chairman.

REPORT TO THE HOUSE

Wednesday, December 19, 1990

The Standing Committee on Public Accounts has the honour to present its

NINTH REPORT

(Second Session of the Thirty-fourth Parliament)

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(e), your Committee has considered the Annual Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1990 and, in particular, paragraphs 3.61 to 3.69, audit notes relating to the Department of External Affairs - the need to improve control of monies advanced to employees.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. The nature of the problem before your Committee, which the Auditor General has referred to as "a breakdown in the accountability process", is a serious inability of the Department of External Affairs to properly control outstanding advances to employees. The Auditor General estimated that some $25 million in advances were outstanding as of March 31, 1990, with approximately one-half representing overdue accounts that should have been repaid. In some cases, advances have been outstanding for several years.

4. These advances to employees relate to a variety of purposes, including: vacation leave, family reunion travel, educational travel, medical travel, accountable advances for dependents and relocation of employees. In total, there are 41 different types of accountable advances to individuals by the Department.

5. The Auditor General informed your Committee that inadequate financial management and control in the Department has been repeatedly brought to the attention of the government and Parliament. The 1987 and 1989 Auditor General's reports pointed out the need for improvement and the slow progress being made. Over the four year period from March 31, 1986 to March 31, 1990, the total amounts of outstanding advances have increased from $15 million to $25 million. In addition, annual audits of the Department have highlighted an urgent need for improvements to accounting controls and procedures and for the training of departmental financial staff.

6. Your Committee wishes to comment on three major areas of concern:

(a) Poor accounting records and controls;

(b) Ineffective and delayed follow-up on outstanding advances; and

(c) The lack of assurance that amounts due from employees reported in the Public Accounts of Canada are accurate.

Accounting Records and Controls

7. The Auditor General informed your Committee that basic accounting records, such as a listing of aging accountable advances due, had not been maintained in the Department. The Department admitted that this was the case but indicated that strong remedial action was underway in the form of a monthly statement of balances owing and due being sent to all employees. The Department stated that all outstanding accounts would be dealt with in a very brief time frame, as soon as one month from the time of your Committee's hearing in November, 1990.

8. Your Committee sought an understanding of the factors contributing to these serious accounting and control inadequacies. The Department made reference to several matters:

(a) the scope and diversity of operations at 120 embassies and consulates worldwide;

(b) the difficulties in communicating by diplomatic bag with headquarters and the lack of a single computer-based financial reporting system at posts abroad;

(c) differing interpretations by responsible officials of claims at headquarters and posts abroad;

(d) the fact that individuals may be unaware that an advance was booked in their name. In some cases, advances do not relate to an individual's personal expenditure, but to some government program;

(e) inadequate training or qualifications of responsible financial officers. In some posts abroad, administrators may be managers in name only and not have the necessary basic training to discharge their duties properly;

(f) the tendency to place less emphasis on collecting monies due to the Crown, perhaps due to the "culture" in the Department, but also related to the lack of private-sector profit or loss considerations and because revenues do not accrue to the Department but are paid into the Consolidated Revenue Fund; and

(g) the impact of frequent staff rotations and the difficulty in having an employee's advances follow him from place to place.

9. The Department also stated that one of the major conclusions of a recent high-level departmental review was to decentralize decision-making to managers at posts abroad. As the Auditor General pointed out, financial controls must be fully restored at headquarters before any move to decentralize authority to missions overseas is contemplated. Otherwise, the problem of inadequate controls will be compounded.

10. In light of the long-term nature of many of the factors contributing to the problem, your Committee is concerned that the issuing of monthly statements to employees is by no means the only action that the Department needs to take. For example, the recruitment and training of fully qualified financial officers is essential, especially if decision-making is further delegated to missions abroad, yet such a measure may well take several years to implement. In addition, the Department has noted that there are errors in the data base underpinning the monthly statements.

11. Although the Department informed your Committee that the process of staff rotation had been slowed down, with the addition of one or two years (for a total of three to five years) at less difficult postings, both the cost and efficiency of the rotation system are matters of continuing concern which bear directly on issues of financial management and control, including accountable advances. A

large part of the $250,000 annual cost of maintaining the average foreign service employee abroad may relate to the frequency of re-assignment. Staff at headquarters, including responsible financial officers, may also be rotated. Consequently, the overall effectiveness of financial management, both at headquarters and in the field, may be impaired. For these reasons, and because of the need to establish appropriate commercial contacts, your Committee recommended in 1987 that the Department encourage the extension of postings abroad (Sixth Report, 2nd Session, 33rd Parliament, tabled May 20, 1987). Your Committee considers that the Department needs to do more in this regard.

Follow-up

12. An important conclusion of the Auditor General was that the overall management of accountable advances should be centralized and that responsibilities for monitoring and follow-up should be clearly defined and communicated to those who support the function. In explaining the system of monthly accounts that it is implementing, the Department noted that existing accountability relationships are being changed and that a stream of accountability between headquarters and the individual employees is being created. While the responsibility to collect or settle outstanding advances will continue to rest with the senior financial officer at each mission, the whole process will be based on the statement sent to the employee, which will consolidate all of the employee's outstanding obligations, no matter where or at which post they were incurred. Your Committee is concerned that these new accountability relationships be fully and properly explained to the responsible financial officers and that follow-up be actively pursued in every case where it is warranted. Only in this manner can expeditious recoveries of public funds be ensured.

13. Your Committee also noted with concern that the Department's internal audit function did not bring the serious problem with accountable advances to management's attention and that it was left to the external auditor, the Auditor General, to do so.

Reporting in the Public Accounts

14. Pursuant to Section 38(3) of the *Financial Administration Act*, every accountable advance that is not repaid, accounted for or recovered at the end of the fiscal year in which it was made must be reported in the Public Accounts of Canada. Your Committee examined section 3 in Part 2, Volume II of the 1989-90 Public Accounts where accountable advances "not repaid, accounted for or recovered" are reported in accordance with Section 38(3) of the Act. A total of $2,867,734 was indicated for advances outstanding in the Department of External Affairs as at April 30, 1990. The detailed listing in the Public Accounts for the Department covers five pages, with hundreds of names - far more than any other government department.

15. Although the Auditor General stated that he did not audit the information on accountable advances in Volume II of the Public Accounts, he has expressed the concern that the accounting records and management reports on advances are so poor in the Department "that there is no assurance that the amounts due from employees as recorded in the accounts of Canada are correct."

16. In view of the importance of providing accurate and clear information to Parliament in the Public Accounts of Canada, your Committee considers that the Department must ensure, in the next Public Accounts, for the fiscal year ending March 31, 1991, that all accountable advances outstanding are shown correctly. The Office of the Comptroller General and the Receiver General's department (the Department of Supply and Services), who are jointly responsible for the guidelines governing the content of the Public Accounts, may be able to assist the Department in this regard.

Recommendations

17. Your Committee recommends that:

(a) the Department of External Affairs ensure that all overdue advances to employees presently outstanding are subject to appropriate settlement or recovery action as soon as possible and that future advances are subject to settlement or recovery in strict conformity with the applicable policies of Treasury Board and the Department;

(b) the Department of External Affairs improve accounting controls and procedures on an urgent basis in order to ensure that appropriate professional standards are achieved and maintained for the control of monies advanced to employees and in all areas of financial management and control;

(c) the Department of External Affairs ensure that effective and timely monitoring, follow-up and recovery procedures are established and maintained for all advances to employees;

(d) the Department of External Affairs review the frequency of postings abroad with a view to extending postings for a longer period whenever possible;

(e) the Department of External Affairs, with the assistance of the Office of the Comptroller General and the Receiver General's department, ensure that the information contained in the Public Accounts of Canada pursuant to Section 38(3) of the *Financial Administration Act* is complete and accurate;

(f) the Department of External Affairs respond in writing to recommendations (a) to (e) above by January 31, 1991 and provide a copy of this response at the same time to the Auditor General; and

(g) the Auditor General assess the aforementioned response of the Department and report his findings to your Committee within a reasonable period.

A copy of the relevant *Minutes of Proceedings and Evidence (Issues Nos. 40 and 43, which includes this Report)* is tabled.

Respectfully submitted,

LEN HOPKINS,

Chairman.

REPORT TO THE HOUSE

Friday, April 12, 1991

The Standing Committee on Public Accounts has the honour to present its

TENTH REPORT

(Second Session of the Thirty-fourth Parliament)

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(e), your Committee has considered the Annual Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1990 and, in particular paragraphs 3.125 to 3.142, the Department of Transport (Canadian Coast Guard), the mid-life modernization of CCGS Louis S. St. Laurent.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. The objective of the modernization is to make the vessel more cost-efficient and give it 15 to 20 years of additional life expectancy. The "St. Laurent", built in 1969, is the most powerful icebreaker in the Coast Guard fleet, and has been used for Arctic supply escort duties.

4. At the time of your Committee's hearings in December 1990, the modernization, which started in August 1988, was approximately 20 months behind schedule and the total cost had escalated to $139 million from an initial planned expenditure of approximately $51 million, that being two and one-half times as much.

5. Your Committee has a number of areas of concern arising from the "St. Laurent" modernization:

(a) Levels of service - the importance of standards or levels of service for the icebreaker fleet;

(b) Cost estimation - the need to improve cost estimation procedures and reporting to Parliament on these costs;

(c) The modernization decision - the validity of the make-or-buy decision;

(d) Sole-sourcing; and

(e) The role of Treasury Board in the approval of the modernization.

Levels of Service

6. One of the major issues raised by the Auditor General was the need for standards or levels of service for Coast Guard icebreaking activities which would form the basis for vessel deployment decisions, for optimizing overall fleet utilization, and for vessel acquisition and modernization decisions to optimize fleet size. The Department informed your Committee that a framework for icebreaking levels of service had been implemented in October 1990 and that this framework was being tested over a period of several months to determine its usefulness. Your Committee also noted the Auditor General's testimony on the need for levels of service to move beyond actual levels and be based on all the analysis that can be done and on the costs to the taxpayer. Your

Committee looks forward to the Auditor General's follow-up audit of levels of service, to be carried out in relation to the 1989 comprehensive audit of the Coast Guard. This follow-up will be conducted once the Department's tests are completed.

Cost Estimation

7. Coast Guard and Treasury Board officials informed your Committee that the initial figure for the cost of the modernization, $51 million, was "purely a planning figure" and "strictly a rule of thumb" which represented roughly 20 per cent of the estimated replacement cost of the ship.

8. Your Committee made reference to the Transport Canada 1987-88 Estimates Part III, which listed a total estimated cost of $54,469,000 for the modernization, with $6,171,000 to be expended in 1987-88, the first year of the project. No explanatory notation accompanied the $54.5 million figure, which was of the same order of magnitude as the $51 million planning figure. The Auditor General noted that the $51 million was significant because it "locked the system in" to future cost increases. Equally important, the appearance of such a cost figure in the Estimates constituted basic information for Parliament in the voting of Supply.

9. Your Committee must emphasize the importance of the presentation of reliable information in the Estimates documentation. Data presented in Part III, showing the total estimated cost of a major capital project, should be a true indicator of the overall cost of the project over its life-cycle.

10. Your Committee noted that the Office of the Comptroller General plays a role in offering policy guidance to departments to ensure that the Estimates documents serve Parliament well.

11. The estimated cost of the modernization underwent a rapid increase from the $54.5 million reported in the 1987-88 Estimates, through a $75.8 million cost in 1988-89, to $95.5 million in the 1989-90 Estimates. A notation in the Transport Canada Part III in 1988-89 explained the increase in terms of an upgrading of the class of estimate and a further refinement of work required; a similar notation the next year, 1989-90, indicated movement to yet a higher class of estimate.

12. Your Committee has two concerns with respect to this cost escalation. First, the cost of the project almost doubled in a three-year period. The Department's testimony that this was substantially more than a normal mid-life modernization, with significant upgrading of the propulsion and other major systems, gives the impression of a rapidly re-thought project which in 1987-88 conformed to a rough planning figure, but which by 1989-90 had emerged as a much greater undertaking. Secondly, your Committee considers that Transport Canada's Estimates Part III failed to provide adequate information to Parliament about this project. There was no indication in the 1987-88 Part III, the first year in which funds were appropriated, that the amount shown as the estimated total cost was based on an early, unrefined class of estimate, not yet approved by Treasury Board.

Recommendation

13. Your Committee recommends that:

(a) Transport Canada ensure that earlier, unrefined cost estimates for major capital projects are clearly distinguished from later, refined estimates when reported in the Estimates Part III and that the dates of Treasury Board approvals are shown in each case; and

(b) the Office of the Comptroller General assist Transport Canada and other departments responsible for major capital projects (and major Crown projects) in implementing this recommendation across the government.

14. The cost escalation on the modernization did not stop at $95.5 million; a cost overrun for the replacement of corroded steel has added $36.9 million to the total, which, with some additional amounts from the annual refit budget, has reached approximately $139 million. The overrun raises important questions about prudent management of public funds; it also places an onus on Transport Canada to find out what went wrong and take appropriate corrective measures. For these reasons, your Committee welcomes the Department's commitment to undertake an internal audit of the modernization project.

15. The Auditor General informed your Committee that the Department failed to include a contingency allowance for steel replacement in early cost estimates for the modernization project and did not respond to reports in 1981 and 1984 from the captain, officers and crew of the ship about serious indications of extensive corrosion.

16. While surveys of the ship, over and above normal Coast Guard Ship Safety Inspections, were carried out in 1984, 1987, and 1989-90, Coast Guard officials indicated that the 1984 and 1987 surveys did not involve dry docking the vessel and only the last survey, in 1989-90, when the ship was well into the modernization in dry dock, revealed the full extent of the corrosion.

17. In subsequent correspondence with the Committee, Transport Canada has confirmed the need for a more thorough assessment process than was carried out on the "St. Laurent" in all future major repair or modernization projects. The Coast Guard envisages a two-step process involving both a survey of the condition of the vessel and a full assessment study in which the vessel will be removed from operational status.

18. The Coast Guard will also examine the need for surveys to include more extensive tests, including those which are potentially destructive to components of the vessel or involve removal of equipment. The Auditor General has interpreted Coast Guard's commitments to include dry docking while the vessel is removed from operational status.

Recommendation

19. Your Committee recommends that Transport Canada, Coast Guard, ensure that major ship repair or modernization projects are preceeded by a thorough assessment process involving dry docking and appropriate levels of survey and testing, including destructive testing when warranted.

The Modernization Decision

20. Your Committee is concerned that incomplete cost data appear to have been used in the least-cost analysis which supported the Department's decision to proceed with the modernization of the "St. Laurent". This analysis was initially carried out prior to the modernization and repeated in 1990; it was used to justify the modernization as compared with the option of acquiring a new ship. The Auditor General noted that the $36.9 million cost overrun for corroded steel was not included in the initial least-cost analysis; nor was an adequate comparison of maintenance costs for the modernized "St. Laurent", as against a new ship, incorporated in either analysis.

21. Also tied to the modernization decision is the importance of using levels of service in related vessel acquisitions. Both the decision to modernize the "St. Laurent" and the need for one and

perhaps two such heavy icebreakers in the far North were determined by the Coast Guard on the basis of professional judgement, prior to the introduction of levels of service. The other triple-screw heavy icebreaker in the Coast Guard fleet, the CCGS John A. MacDonald, is nearing the end of its useful life in the Arctic. Your Committee considers it essential that levels of service be used to decide upon the replacement of the "MacDonald" and, indeed, for all other such decisions in relation to the Coast Guard fleet. As the Auditor General noted in his testimony, it would be curious to carry on discussions about the replacement of the "MacDonald" on the assumption that it should be replaced without knowing, on the basis of levels of service, whether or not it was needed in the first place.

Recommendation

22. Your Committee recommends that Transport Canada, Coast Guard, ensure that:

(a) future least-cost analysis of planned capital projects include all cost factors; and

(b) levels of service are used in all major ship acquisition, modernization and deployment decisions.

Sole-Sourcing

23. In June 1987, when the Cabinet directed the Minister of Transport to enter into a sole-source contract for the modernization of the "St. Laurent", the Government Contracts Regulations stipulated that "before any contract is entered into, the contracting authority (the Minister of Transport in this case) shall invite tenders therefor"; however, the Regulations also allowed for four types of exceptions to this rule: emergencies; amounts not exceeding $30,000; cases where it is not in the public interest to go to tender; and situations where only one person can perform the contract. Since the direction to sole-source the modernization made reference to socio-economic reasons, it would appear that the exception relating to the public interest was used in this case.

24. Your Committee's objections to the sole-sourcing of government contracts are a matter of public record. In earlier reports to the House, most recently in 1986, your Committee recognized the fairness and economy of the competitive tendering process and recommended that government departments make maximum use of competitive tendering for contracts (Second Report, 2nd Session, 33rd Parliament, tabled December 18, 1986).

25. Therefore, the Cabinet direction to sole-source the modernization is a matter of serious concern to your Committee, particularly since this direction was given several months after the chosen shipyard, Halifax Dartmouth Industries Ltd., had submitted an unsolicited proposal for the work to the Department of Supply and Services. Senior Coast Guard officials testified that other shipyards capable of doing the work made representations when the Cabinet decision became known. These officials also stated that the standard procedure for major ship modernizations, to go to public tender, was recommended in this case on the basis of a review of the unsolicited proposal.

Recommendation

26. Your Committee recommends that:

(a) Transport Canada make maximum use of competitive tendering for contracts; and

(b) The Minister of Transport give consideration to reporting at least annually to Parliament on the use of exceptions to the mandatory tendering requirement under the Government Contracts Regulations.

The Role of Treasury Board

27. Treasury Board officials informed your Committee that all aspects of the approval process were followed in the case of the "St. Laurent" modernization and that there was nothing to suggest that more accurate figures could have been obtained at the time at which approvals were given. In view of the substantial evidence of cost escalation associated with the modernization, your Committee cannot accept this viewpoint. For example, the failure to include contingencies for steel replacement, which led to the overrun discussed earlier in this report, slipped by Treasury Board, in spite of experience in Transport Canada and other departments such as National Defence with comparable vessel modernizations.

28. Your Committee also raised with Treasury Board officials the failure of the Coast Guard to comply with the requirement to specify levels of service. Although levels of service have now been introduced, the requirement for them, established by Treasury Board in 1974 and repeated by Cabinet in 1981, is a longstanding one and many major capital projects have been approved by Treasury Board, including the "St. Laurent" modernization, in the absence of levels of service. Your Committee was not satisfied with the statement by Treasury Board officials that the number of icebreakers needed was "obvious" and "self-evident".

Recommendations

29. Your Committee recommends that Treasury Board enforce requirements such as the specification of levels of service prior to granting approval to related capital projects and contracts.

30. Your Committee recommends that:

(a) Transport Canada respond in writing by June 28, 1991 to recommendations 13(a), 19, 22 and 26(a);

(b) the Office of the Comptroller General respond in writing by June 28, 1991 to recommendation 13(b);

(c) Transport Canada and the Office of the Comptroller General provide copies of their responses to the Auditor General on the due date; and

(d) the Auditor General assess these responses and report back to your Committee within a reasonable period.

31. Your Committee requests a Government response to recommendations 26(b) and 29 in accordance with Standing Order 109.

A copy of the relevant *Minutes of Proceedings and Evidence (Issues Nos. 41, 43 and 44, which includes this Report)* is tabled.

Respectfully submitted,

LEN HOPKINS,

Chairman.

REPORT TO THE HOUSE

Thursday, June 6, 1991

The Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

(Third Session of the Thirty-fourth Parliament)

1. In accordance with the Order of Reference of Friday, May 17, 1991, your Committee has considered Vote 20 under FINANCE in the Main Estimates for the fiscal year ending March 31, 1992, and reports the same.

A copy of the relevant *Minutes of Proceedings and Evidence (Issue No. 1, which includes this Report)* is tabled.

Respectfully submitted,

JEAN-ROBERT GAUTHIER

Chairman

Appendix D

Report on the Audit of the President of the Treasury Board's Reports to Parliament on Tablings of Crown Corporations' Summaries and Annual Reports

REPORT ON THE AUDIT OF THE PRESIDENT OF THE TREASURY BOARD'S REPORTS TO PARLIAMENT ON TABLINGS OF CROWN CORPORATIONS' SUMMARIES AND ANNUAL REPORTS

Introduction. The Financial Administration Act requires the President of the Treasury Board to lay before each House of Parliament reports concerning the timing of tabling, by appropriate ministers, of annual reports and summaries of corporate plans and budgets of Crown corporations subject to the reporting provisions of Part X of the Act.

These reports allow Parliament to hold the appropriate ministers (and, ultimately, the Crown corporations) accountable for providing it, within the relevant statutory deadlines, with information required under the Financial Administration Act. Accordingly, each report is required to indicate the annual reports and the summaries of corporate plans, capital budgets and operating budgets (and amendments to them) that were to be tabled before each House during the reporting period; the time at, before, or within which they were required to be tabled; and the time they were actually tabled.

Because of amendments to the FAA which came into effect in May 1991, these reports, which had previously been required to be tabled quarterly, henceforth are required to be laid before each House of Parliament annually, not later than December 31 of each year.

Scope. I am required by subsection 152(2) of the Financial Administration Act, to attest to the accuracy of the information contained in the reports on Crown corporations tabled by the President of the Treasury Board. Accordingly, I have examined the reports indicated below:

	Tabled in Parliament	
For the Quarter Ended	**House of Commons**	**Senate**
30 June 1990	5 November 1990	7 November 1990
30 September 1990	5 November 1990	7 November 1990
31 December 1990	27 March 1991	9 April 1991
31 March 1991	14 June 1991	17 June 1991
For the Year Ended		
31 July 1991	(to be tabled not later than 31 December 1991)*	

My examination included a review of the systems and procedures used by Treasury Board to monitor the tabling of the summaries and annual reports in each House of Parliament, a verification of the information contained in each of the reports, and such other tests and procedures as I considered necessary in the circumstances.

---

* *Not tabled at time of going to press*

Conclusion. I have concluded that the reports listed above contain all the required information about the timing of tabling, by the appropriate ministers, of Crown corporations' annual reports and summaries (and amendments to them) of corporate plans, capital budgets and operating budgets, and in my opinion, the information contained in the reports is accurate in all significant respects.

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 25 October 1991

Appendix E

External Advisors to the Office of the Auditor General

External Advisors to the Office of the Auditor General

The Office of the Auditor General uses external advisors extensively in its work.

The Auditor General has two groups of personal advisors: a Panel of Senior Advisors with 12 members and an Independent Advisory Committee with 17 members. These are listed at the end of this appendix.

In addition, Audit Advisory Committees are established for every comprehensive audit, whether government-wide or of a department, agency or Crown corporation. They are a source of advice for the Principal and the Assistant Auditor General responsible for the audit. The Office considers these committees to be an essential element in the management of comprehensive audits.

These Committees, comprised of both internal and external advisors, provide a forum in which the audit team responsible for conducting a given audit can present its plans, potential contentious issues and alternative reporting strategies. They meet at critical points in the audit process to review the approach and the findings.

Internal membership of Advisory Committees normally includes the Deputy Auditor General and the Assistant Auditor General who have responsibility for the audit report, as well as two other senior Office managers.

External advisors are chosen for expertise which is particularly relevant to the audit concerned. External advisors include persons with line management experience in similar programs, representatives of interest goups served by the program, experts in the discipline being audited and auditors who have audited similar programs in other jurisdictions. Advisors provide strategic and technical advice (for example, on the scope and criteria of the audit) and critically scrutinize the logic and fairness of the assessments and recommendations that the audit team develops.

For the 1991 Report, the Office has used 48 external advisors. They represent a number of professions and positions in federal government, provincial government, the private sector and universities. These appear below. Some are listed twice, once under their profession and again under their position title.

7	accountants
3	lawyers
7	engineers
3	economists
4	political scientists
5	university professors in related areas
3	senior partners in accounting firms
13	senior partners in consulting firms
1	senior partner in law firm
7	former deputy ministers and assistant deputy ministers in federal and provincial governments
1	current assistant deputy minister in a provincial government
8	executives in federal, provincial and municipal organizations
2	former senior officials from the federal audit office
1	former executive in private sector firms

1	former bank executive
1	telecommunications firm executive
1	securities firm executive
1	real estate firm executive
1	airlines executive

Advisors to the Auditor General for the fiscal year ended 31 March 1991

Membership of the Panel of Senior Advisors

Kenneth G. Belbeck, F.M.C.
Peat Marwick Stevenson & Kellogg

Marcel Caron, O.C., F.C.A.
La Presse Ltée

Gordon H. Cowperthwaite, F.C.A.
Canadian Comprehensive Auditing Foundation

Alan J. Dilworth, F.C.A.
Deloitte & Touche

William A. Farlinger, F.C.A.
Ernst & Young

Kenneth S. Gunning, F.C.A.
Pannell Kerr MacGillivray

Ralph W. Karthein, C.A.
IBM Canada Ltd.

Giles R. Meikle, F.C.A.
Deloitte & Touche

Edward W. Netten, F.C.A.
Price Waterhouse

Donald H. Page, F.C.G.A.
Don Mills, Ontario

Kenneth R. Stevenson F.C.A.
Coopers & Lybrand

W. Ross Walker, F.C.A.
Peat Marwick Thorne

Membership of the Independent Advisory Committee to the Auditor General on Government Accounting and Auditing Standards

Morley P. Carscallen, F.C.A.
Coopers & Lybrand

L. Denis Desautels, F.C.A.
Ernst & Young

Kenneth M. Dye, F.C.A. (Chairman)
Auditor General of Canada

James L. Goodfellow, F.C.A.
Deloitte & Touche

Henry E. McCandless, C.A.
(Secretary)
Office of the Auditor General of Canada

Ronald B. Robinson, F.C.M.C.
Abt Associates of Canada

Lawrence S. Rosen, Ph.D., F.C.A.
Rosen, Vetese & King

Edward R. Rowe, C.A.
(Vice-Chairman)
Office of the Auditor General of Canada

Membership of the Independent Advisory Committee to the Auditor General on Government Accounting and Auditing Standards (cont'd)

Douglas D. Graham, C.A.
Pannell Kerr MacGillivray

Inger Hansen, Q. C.
Ottawa, Ontario

John J. Kelly, C.A.
Canadian Institute of Chartered Accountants

Ronald E. Kiggins, C.A.
Peat Marwick Thorne

David Kirkwood
Canadian Mediterranean Institute

Leonard Rutman, Ph.D.
Price Waterhouse Management Consultants

William R. Sloan, F.C.A.
Arthur Andersen & Co.

George F. Windsor, B.Eng., LL.B.,
Osler, Hoskin & Harcourt

Donald R. Yeomans, C.M.A., F.S.M.A.C.
Ottawa, Ontario